★ SIGNIFICANT FACTORS AFFECTING SECURITY TRENDS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MARCH 13, 1948

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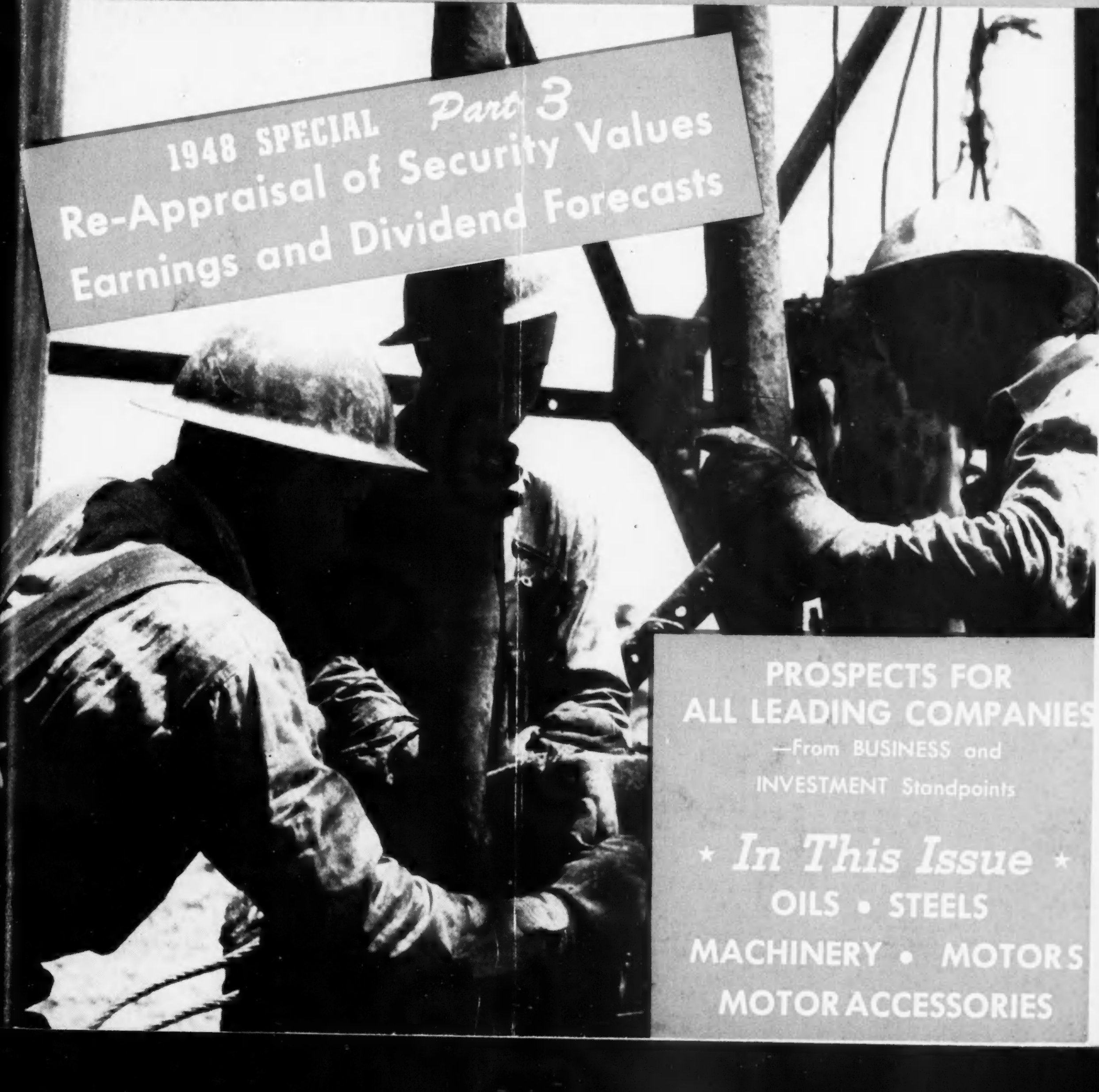

1948 SPECIAL *Part 3*
Re-Appraisal of Security Values
Earnings and Dividend Forecasts

PROSPECTS FOR
ALL LEADING COMPANIES
—From BUSINESS and
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GIANT CIRCUIT BREAKERS

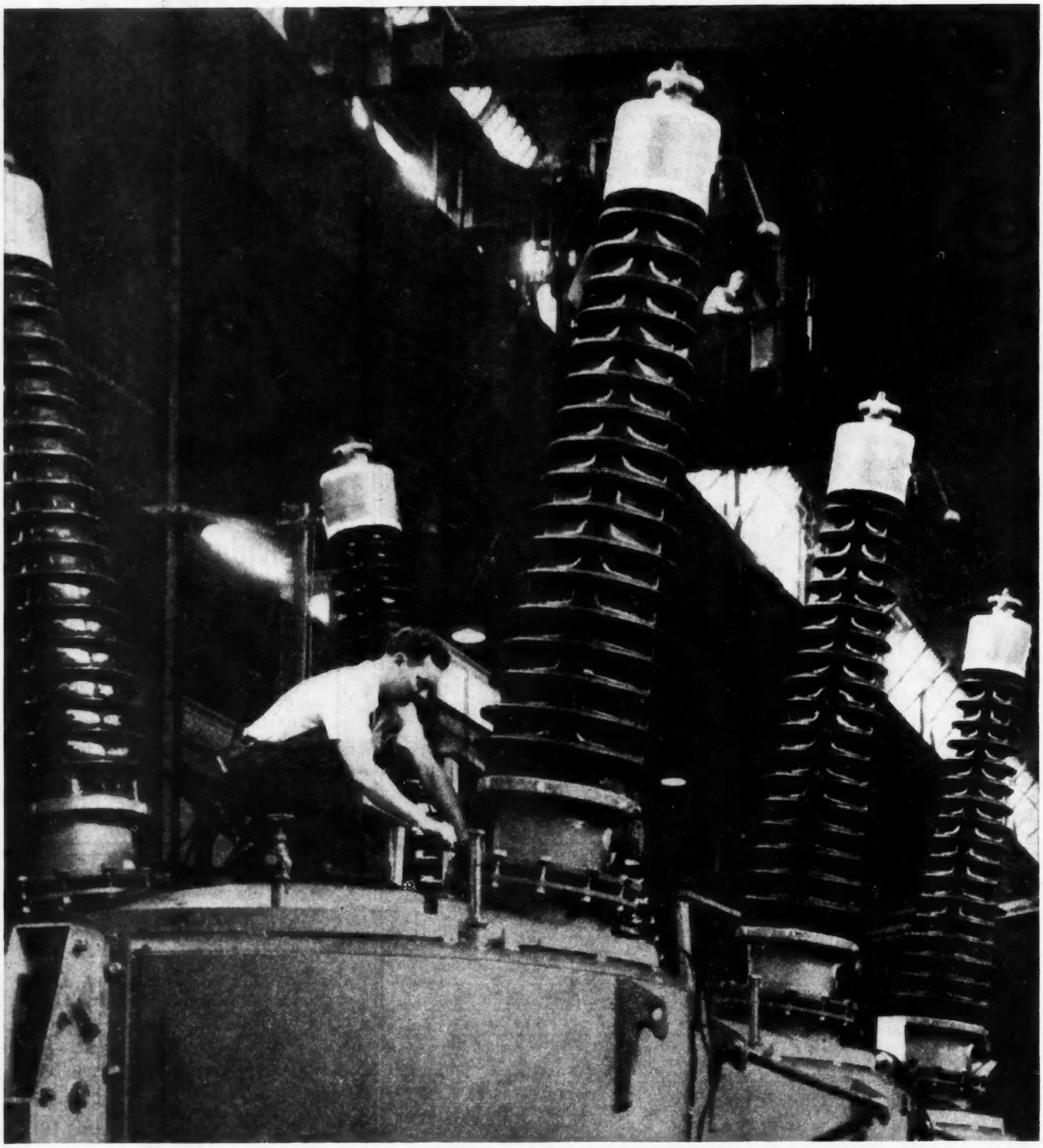
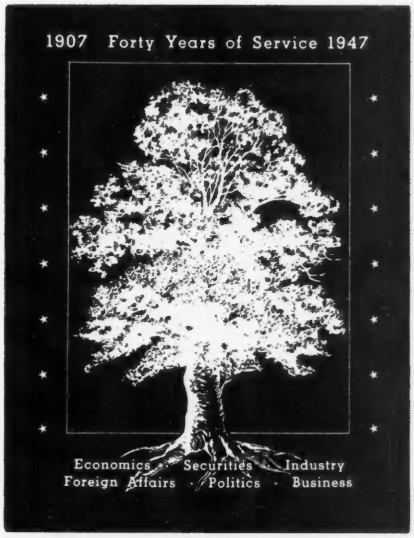


Photo by Westinghouse

Equipment to interrupt the vast power generated by the Grand Coulee Dam in an emergency represents a major test of technical skill. This oil circuit breaker built by Westinghouse has the largest interrupting capacity ever provided by a device of its special kind. It is capable of interrupting 3½ million KV-a with currents as high as 8800 amperes in 1/20th of a second, though its dimensions are no larger than those of former less powerful units.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

NEW URGENCY . . . The spontaneous approval of Senator Vandenberg's exposition of the European Recovery Plan in the senate last week is indicative of a suddenly vivid sense of the reality and blackness of the crisis sweeping westward over Europe, of recognition of the value of any voice that can speak firmly.

Senator Vanderberg did speak firmly. He said little that has not been said many times before, but he said it with clarity and conviction, eliminating personalities or party politics. He neither made extravagant claims for ERP nor did he conceal that the program which he urged upon Congress is a considerable risk. Above all, he spoke against a background of events that have at last driven home the extreme urgency of the problem with which he has been struggling so long and so patiently.

Realistically he stated that success depends entirely upon solidarity among the nations of Western Europe and that the ERP will succeed in proportion that it encourages such solidarity. Unity in Western Europe is indeed the crucial issue, for us as well as for Europe, for if the people west of the iron curtain cannot draw together now, they will never be able to do so in the foreseeable future.

It is heartening to observe that this need is finally more and more understood in Western Europe, where a union of western European nations is well along in the planning stage. It was strongly urged by Foreign Minister Bevin of Britain not so long ago. In fear and dismay, most European leaders are now pressing for its immediate realization. Thus begins a new phase of the East-West conflict, a move that has the hearty support of American policy makers who well realize its importance not only from the political but strategic standpoint as well. By all means it would greatly harden Europe's will to resist further progress of Sovietism, for the contemplated pattern would go far toward solving the problem of the defense of Europe against Soviet aggression, thereby laying the ghost now haunting European minds, of Soviet armies marching almost unopposed to the North Sea and the Channel.

While Western Europe needs our encouragement and backing, the salvation of its freedom is essentially a European responsibility and task. Senator Vandenberg has made that clear and, we believe, it is increasingly understood in Europe that this burden cannot be shifted from European shoulders.

HARDY PERENNIAL . . . President Truman's request to Congress for a three year extension of the Reciprocal Trade Agreements Act spotlights the revival of traditional tariff troubles that have featured congressional wrangling throughout our history. The fourteen-year old Act is due to expire June 12. It gives the President authority to enter into agreements with foreign nations for a two-way cut in tariffs and other import barriers.

The Truman Administration has acted vigorously under this law with the result that many U. S. duties are now down to pre-World War I levels, far below the Smoot-Hawley Tariff of President's Hoover's era. In his request to Congress, the President aptly describes the law as an essential element of U. S. foreign policy. It is indeed.

It was under its authority that the United States took part in the Geneva Trade Conference last year,

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty Years of Service"*—1948

attended by 23 countries, and consented to considerable tariff cutting, some of which has already come under congressional fire. Despite occasional angry protests by certain business interests, it can be said that the Act in the past has proved beneficial to us as well as to stabilization and improvement of world trade. It has affected more than one-half of all our foreign commerce.

Yet by and large, Republican leaders in the House Ways and Means Committee, which initiates all tax and tariff bills, appear reluctant to comply with the presidential request. Their protectionist inclination has been reinforced by a stream of complaints about the tariff slashes negotiated at Geneva. And quite apart from questions of fundamental policy, this is an election year!

The program has been fought over for years, either on the premise that it will seriously injure many vital industries, or because it was thought that it gives the President too much power. The former is difficult to prove. Doing something about the latter, such as requirement of congressional ratification, may easily tend to renew the log-rolling that once prevailed, bogging down effective action in a welter of confusion and delay.

In spite of disagreements, it is unlikely that there will be a battle to the finish. Rather there may be delaying tactics or a compromise on limited extension of the Act, for in an election year, an old-fashioned tariff fight might prove embarrassing to both sides. From the standpoint of national interest, one can have no great objection to the Act's extension. Our need for greater imports is well known and moreover, foreign competition won't be too serious until Europe rebuilds its industries and the domestic demand for goods begins to slacken. From a foreign policy standpoint alone, extension is desirable.

FARM PRICE SUPPORT . . . Secretary of Agriculture Anderson, in appealing to Congress for early action on future Government price support policies, realistically foresees that price supports for many farm products almost certainly will be discontinued at the end of this year when the present Farm Support Program expires.

It is a matter of regret that the question of continuation of the farm program which involves a revision of our long range farm policy, has to come up in an election year. There are millions of farmers, most of them quite articulate, and all of them have votes. For this reason alone it would seem almost impossible to keep the issue out of politics.

The present program is based on price supports at a level of 90% of parity for a large number of agricultural commodities, too many, as it is. Actual price developments have kept the scheme virtually inoperative except in very few instances. Where it became operative, such as in the case of eggs, tobacco, potatoes, chickens, it has tended to keep prices unconscionably high at a time when lower food prices were urgently desired. Indicative of the strength of the farm price situation is the fact that even the recent break in prices did not bring the support mechanism into play. If it does, it will swallow huge amounts of tax money. The tax payer will pay two ways, first in the form of high food prices and secondly in taxes to meet the outlays for price support.

Congress after the war extended the support program until the end of 1948 feeling that farmers, having expanded their acreages sharply during war years, should be protected against a sudden collapse in agricultural prices for the first two years following termination of hostilities. To what extent this action was responsible for keeping food prices in the stratosphere is difficult to say since demand factors were unusually strong. Yet the latest break in farm commodities shows that in the long run, economic laws cannot be violated by artificial influences.

Development of a long range agricultural program is no doubt a necessity but it should protect the consumer as well as the farmer. To what extent this is feasible in an election year appears to us somewhat doubtful, in the light of past experience. Secretary Anderson has stated that he favors "flexible" supports, ranging between 52% and 90% of parity. The larger the supply of the commodity, the lower would be the support level, and vice versa. This sounds fine, but he may find that Congress in translating this principle into an actual program may be poles apart, and it is then where politics will promptly enter. Above all, any support programs not closely tied to acreage and distribution controls would seem to us to hit besides the mark. The history of subsidy-induced surpluses proves this.

TAX PROPOSALS . . . The Treasury Department early this month proposed that Congress abandon the present two-year carry-back and carry-forward for business firms' net operating losses in favor of a one-year carry-back and a five-year carry-forward. This is perhaps the most important of a series of 63 suggestions for revision of the general tax laws, all of which are designed to cost the Government the least possible amount of revenues.

For the latter reason no doubt, they did not include the long-sought elimination of so-called double taxation, that is taxation of corporate earnings paid out as dividends; yet along with revision of the capital gains tax, this would be one of the most constructive tax moves we can think of. In the long run, the issue cannot be avoided; and the sooner we shall have action along constructive lines, the better it will be. The inequities inherent in double taxation and the role of the capital gains tax in hindering the free flow of capital into constructive enterprise are well known. Something should be done about it, and soon, if business is to get the equity capital that it urgently needs for expansion and financial stability.

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Due to the revamping of our Stencil and Mailing Departments, we have run into problems which have resulted in inconveniences to our subscribers . . . where changes of address and expiration notices have not been handled with our usual promptness. This will be straightened out within the next two weeks. We know that, in this temporary situation, our subscribers will bear with us, realizing the labor handicaps to which all of us are subject at this time. Very shortly we assure you that our service in this respect will be on a par with the hight standards that you have come to expect from us.

As I See It!

BY CHARLES BENEDICT

WE CAN STOP RUSSIA — IF —

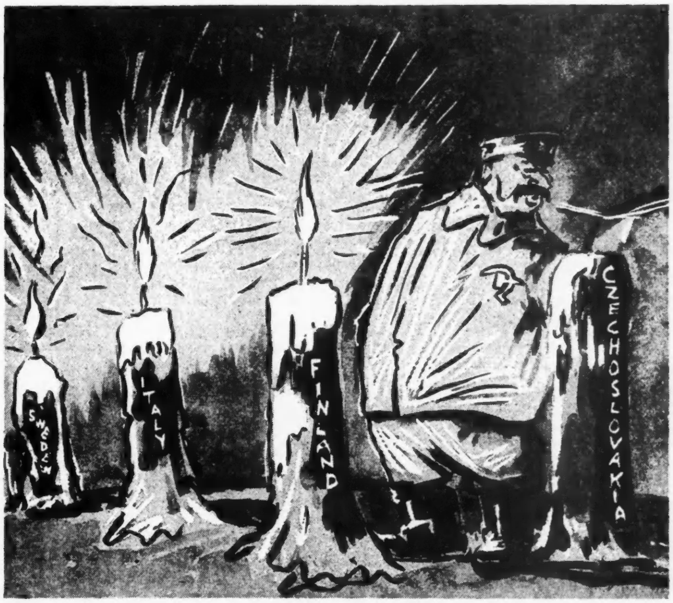
To begin with, we might as well recognize that Russia has been winning most of the battles in this new kind of war. The reasons are very simple:— 1) Her leaders have the power to act without consulting the people; 2) Their well-oiled and organized machinery is equipped to carry out any policy decided upon in individual countries and internationally; 3) Russia is ready to brazenly liquidate opposition wherever it is found because she can rely on highly efficient communist propaganda to distort and confuse public opinion.

We of the West do not possess comparable strength or organization to meet Russia head on. It is just that we have made no concrete plans or taken definite steps to cope with the set-up which gives so much power to the Russian leaders. And yet, although we have known the facts all along—and the great danger inherent in the situation — we have not arrived at the basic essential—**political unity.** And under the influence and the unreason of a presidential election, we have permitted political expediency, conflicting interests and an infantile kind of idealism to keep us from taking the first common sense step—that of designating and outlawing the communists as a "Party of Foreign Agents" seeking to overthrow our government at the behest of another country.

And as this were not enough — in the face of the dangerous crisis in which we find ourselves, Congress has continued to fumble regarding the only alternative potent enough to stop the Russians — military preparedness.

Continuing our inept handling of the situation, we have "written off" one country after another, so that with the rape of Czechoslovakia the Soviet Union has succeeded in extending its power over most of the old Austro-Hungarian Empire, and is now in a mad race to consolidate her gains sufficiently to enable her to act elsewhere, while the West licks its wounds in rueful bewilderment,—and the resulting fumbling and indecision bodes no good for the future.

"THE LIGHTS ARE GOING OUT AGAIN"



Loring in the Evening Bulletin

It is a tragedy that our Government should have been willing to write-off Czechoslovakia without a struggle, for that country was the only really democratic state,—the only bulwark of western civilization in that part of the world. Instead, we should have moved heaven and earth to sustain this well knit entity of democracy and free enterprise. But, we did not even challenge Russia in the United Nations, or act to produce a stalemate until such time as the Marshall Plan was put into operation.

As matters now stand, all Russia has to do to complete her subjugation of the people of Middle and Eastern Europe is to annex Vienna — the hub of the transportation system which begins in Paris, to Berlin through Prague, to Belgrade and running to Istanbul. This seems likely to be the Kremlin's next move.

Stalin's methods are clearly following the Hitlerian strategy. While clamoring for a deal with Finland, he is working undercover elsewhere in Vienna, Italy and France, — in the Middle East. And while we are haggling over aid to Greece, Turkey and China, his guerillas and his propaganda are keeping us busy scratching everywhere like a dog with fleas — and not prepared to cope with the situation anywhere.

If we would settle a few things—appropriate the money necessary in Greece, Turkey and China—and put the Marshall Plan into operation, we could take time out to think this thing through to a logical conclusion, instead of meeting every blow with a new expedient. We could at least "put our fingers in the holes in the dyke" and keep the heavy seas of Soviet aggression from coming in and swamping us.

And speaking of the finger in the dyke, it seems like an impossible thing to withhold a mighty ocean—and yet it did, and the finger was only that of a little Dutch boy who acted instinctively. It seems that the reasoning of the men of the West has grown clumsy and involved—their thinking is based on logic without intuition—they seem (*Please turn to page* 675)

Significant Factors Affecting Security Trends

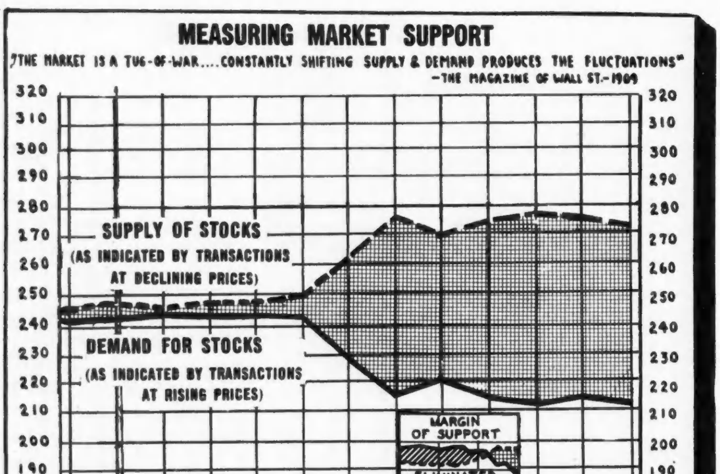
WE BELIEVE: The narrow market range of recent weeks will not be maintained much longer. The technical indications as to the direction of the change are presently indecisive. The business outlook remains doubtful at best. The foreign uncertainties are formidable. There is no change in our cautious policy. Maintain substantial reserve buying power as advised.

By A. T. MILLER

It is apparent that the typical investor is in a "wait and see" mood, not bullish enough to buy stocks aggressively, not bearish enough to do much selling. The total buying and selling of all investors and speculators foots up to much under a million shares a day under present and recent conditions, and is pretty evenly balanced. Hence, all composite measures of stock prices have fluctuated within an extremely narrow range for the past three weeks or so.

This flat spot follows about six weeks of sharp decline up to mid-February, on which the industrial average again closely tested the old bear-market low without breaking it. So far as the widely followed Dow industrials are concerned, this sort of thing has been going on for some 18 months, the chief difference being that on this latest downside test the rail group met far better support than it had on the earlier tests. The now familiar range of "the Dow" is roughly 186-163. Declines having halted so many times within the 5-point range above 163, it is not hard to understand why selling again dried up there in February. For those with a selling program, if they are technically minded, the precentage in that immediate area is the "lay off," with the idea of resuming sales on a rally or of dumping if the old low is broken.

This leaves the initiative in the selling required to break the old low to other sources. Conceivably foreign liquidation, especially for Dutch and French account, might do it, given absence of adequate domestic demand. Or, conceivably, the scales could be tipped by the selling of those who become increasingly convinced from what they see that the prospect for business and earnings is deflationary, and who do not think there is much chance that stock prices have already made allowance therefor.



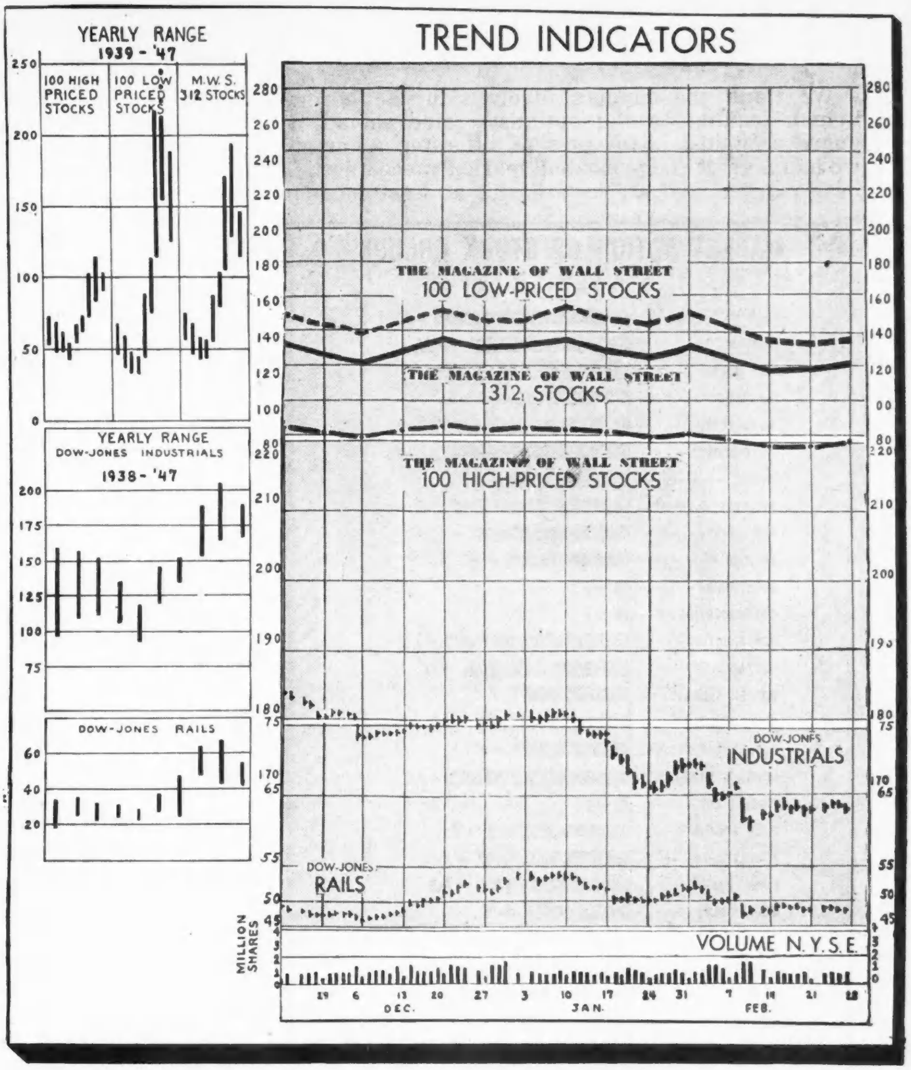
The Technical Indications

Obviously, the sidewise drift of the averages has to be a prelude either to some degree of rally pretty soon or to decisive downside action; for 5-point trading ranges just above a key support level are most unlikely to be maintained for more than a very few weeks. For the moment, however, those seeking technical guidance will get more benefit out of a good detective story or a quick trip to Florida. There are no technical "indications" worth speaking of. There never are when the market consensus represents practically a matter of suspended judgment.

It can be noted that the undertone of the market, as reflected by the Support Indicator chart, has improved more in

recent weeks than have prices. This may well suggest a rally in the making, but this evidence is tentative rather than decisive. It can be noted that the relative firmness of the rail average is encouraging. So is the fact that so far in 1948 our weekly index of 100 low-price stocks has lost less ground, percentage-wise, than the index of 100 high-price stocks or the combined index of 312 stocks. Finally, late last week, some improvement, the first in some time, was seen in motion picture and liquor stocks.

But these straws do not foot up to anything at all conclusive. Some central facts to keep in mind are that the market is virtually on a cash basis, making it less subject to being stampeded than in the past; and that, with professional and insider operations reduced, it is more of a "public" market than it used to be. This makes it less prophetic, more inclined to move with or after the news. So far as the investing public can see, the business news, on balance, is still good. Production, industrial employment, trade and total income payments are still at or close to the peak levels. With few exceptions, corporate profits are still high. Most dividend changes are still on the favorable side.



There are plenty of uncertainties in the picture, and some symptoms which certainly raise questions about the future health of over-all business. But until deflation is actual, and hits the investor directly either in his own business, profession or job, or through sharply reduced corporate earnings and adverse dividend changes, he is inclined in most cases to sit tight with his common stocks and hope for the best. Under the circumstances now prevailing, it is not surprising that there is no great pressure, on the market; but its absence may have little, if any, prophetic significance. We do not think there is much doubt that less favorable business conditions are developing, although it is impossible to foresee what the net impact will be. So far, since the major high was seen in stock prices in the late spring of 1946, the market has had no downside test except in a boom environment. The test of what it will do in a different environment is still ahead.

It is easy enough to rationalize a case for the bull side. You can say that the correction begun in farm and food prices is a good thing, since they were too greatly inflated and since some deflation here will make for a better price balance in the economy and free purchasing power for hard goods. You can say that, in view of unsatisfied demands for durable goods, and the effect of the Marshall program, the economic readjustment will be very mild and should be confined mainly to soft goods.

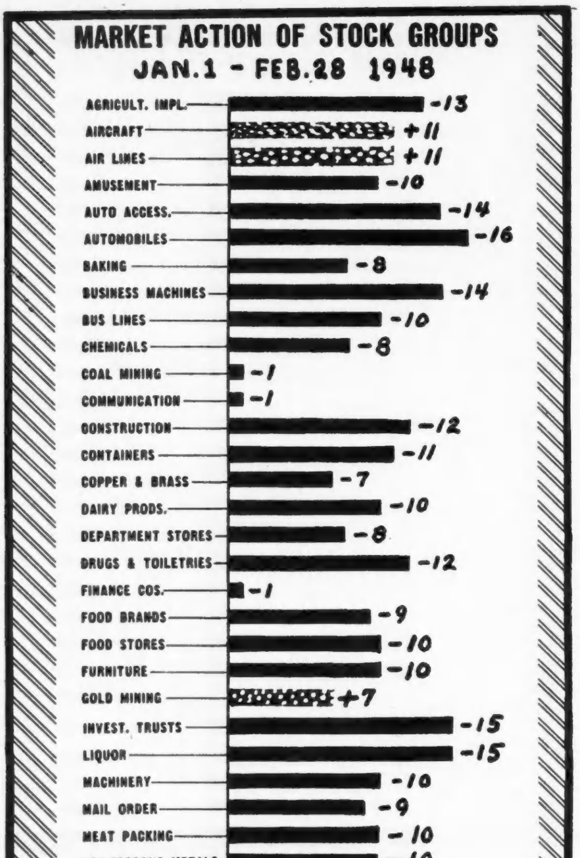
We concede that this is possible, but it certainly seems risky and premature to bank on it. For one thing, there never before has been a postwar inflation which was corrected easily and painlessly. Each such deflation has begun in soft goods, especially foods and primary farm commodities, and has spread through the economy. Historical precedent may not be controlling, but the record and the usual functioning of the business cycle put a heavy burden of proof on those who confidently say that "this time it will be different."

For another thing, it should be remembered that the great majority of all people concerned with the stock market, including professional advisers and analysts, nearly always are inclined to give the benefit of the doubt to the hopeful side. The normal psychological pressures work that way. That is why the business conditions of a 1929 or early 1937 seemed "fundamentally sound" to most of us until they

were conclusively demonstrated to be otherwise.

Caution Carries No Risk

We think the dangers involved in the normal human leaning to the optimistic side should be guarded against in the present situation. After all, we had a great four-year bull market preceding this bear market, and stocks are still at least medium high by any yardstick. After all, we have had a long period of inflation and unusually "easy going" for business concerns. Considering this background, even minor symptoms of a change in the environment should be of some concern. As a practical matter, the risk of exaggerating their significance is probably much less than the risk which may be involved in lightly dismissing them. In fact, we strongly suspect that it involves no risk at all; for the uncertainties in the outlook appear clearly great enough to preclude any sustained advance in stock prices at present; and, even if the absolute low has been seen, to imply either further tests of it or a fairly extended period of dullness in which the market will drag along not far from bottom. That, we think, is to put the best light on it. There is a very real chance that the market has not seen its final low.



The first tentative evidences of deterioration in the business picture have developed pretty much where they could readily have been forecast: in farm and food prices; in lines which had caught up with abnormal demands, such as tires, small radios, small electric motors; among marginal concerns here and there, and in the tone of the "gray," or resale, markets. A number of the latter, notably as concerns chemical items and textiles previously in tight supply, have turned weak. There is a sudden spirit of caution among buyers all the way from the retail end to company purchasing agents. Stores find many things harder and slower to move. New houses do not sell as well as a few weeks ago. Commercial bankruptcies are increasing. Mortgage lenders are more choosey, at advanced interest rates. Banks are going slow on new loans, rechecking the risks in old ones.

We doubt that the history of 1920-1921 will repeat, at least in degree. Nevertheless, the manifestations cited, and others that could be cited, are generally similar to those which developed in 1920 in the months preceding that year's eventual business slump. Since there has been considerable to-do over a recent boost in some steel prices, it might be noted that at every turning point farm prices have broken early, steel and metal prices late. The final increase in the latter, both in 1920 and the winter of 1936-1937, were not at all prophetic.

With the business outlook doubtful at best, we also have to contend with the political uncertainties of an election year, at their maximum until the Republican candidate is known; and with a chronic foreign crisis more grave and complex, for obvious reasons, than this nation has ever faced before. Even war is not out of the question, and either war or a radically increased defense program would put long-run budget and tax prospects under serious question.

Can anyone feel confident where stock prices will be six months hence? Yet the tax odds, above the lower brackets, are prohibitively against buying except for retention periods of six months or longer. On the other hand, the market is not likely to do more than back and fill if the support is mainly short-term speculative demand.

Graphed on this page are the net changes in our 46 weekly stock-group indexes during the first two months of 1948. Only three show net gains. They are aircraft, air lines and gold mining, groups which often have diverged from the general trend. They rebounded from thoroughly deflated levels, the aircrafts responding to moves to step up the Government's aircraft. (*Please turn to page* 665)

Recession or Depression?

By E. A. KRAUSS

The break in farm commodity prices that occurred a little over a month ago has brought about an abrupt change in business sentiment and the general economic weather. To many steeped in inflationary thinking, the realization that prices can turn downward was a distinct shock; others were less surprised. With commodity markets getting their second wind, the first shock is now over but it has left us with the possibility that larger areas of the economy will ultimately become involved as the process of price correction spreads. The resultant caution in business policies may well prove one of the best bulwarks against a really severe setback.

In the current debate about the outlook, shot through with dire predictions ranging anywhere from a moderate recession to a full-blown depression, two comparisons are frequent. One is with the price collapse of 1920, the other with the crash of 1929. But there are optimists, too. Their's is the belief that the boom has still some way to go before reaching its peak and that the price break was no more than one of those periods of hesitation such as we had a year ago. Inflationary forces, they maintain, have not been routed but merely set back temporarily on a few weak and over-extended fronts. But those who thus argue are in the minority. By and large, optimism has given way to almost somber conservatism.

Conflict of Opinions

To the business man and investor, the welter of opinions is necessarily confusing. Many will undoubtedly recall that most predictions made since the war's end went wrong, including a good many that seemed to have majority support. Commodity prices have been upset before, and then have quickly recovered and moved to new highs. What prospect of repetition, they ask? Are we really facing a turn in the business cycle? Is the price break a knock-out blow to the inflationary boom? Is the start of the long-heralded recession at hand? Today these questions are in everybody's mind and the fact that it is difficult at this stage to come forth with reliable answers only increases the dilemma. But what we can do is to analyze the forces at work and see what they add up to.

Cause and Effect

Let's look first at the primary cause of the price break. If anything, it was long overdue, since farm prices were by far the most inflated and way out of line with other prices. Many expected such a break a year ago. If, in spite of a period of hesitation, it did not materialize, this was due to underestimation of European requirements because of poor crops and lagging recovery, to our own partial corn crop failure and an uncertain outlook for other important grain crops. Aided by heavy worldwide demand, by Government farm price policies, by growing speculation, by heavy relief buying, and last but not least, by farmer hoarding of grains to lessen taxes and obtain still higher prices, farm commodities rose to extraordinary heights, a development that in itself carries the seeds of severe correction as soon as a change in basic conditions is indicated.

Such indications appeared a few months ago. The world crop outlook, including that of Europe, looked greatly improved, as were prospects for our domestic wheat crop which only last autumn seemed at best mediocre. Suddenly aware of a possible radical shift in the demand-supply equation, grain markets reacted violently from their stratospheric levels, dragging down other staples. It was a logical sequence, but with its widening repercussions it was also a dramatic warning that our boom is vulnerable and

by no means punctureproof. It revealed above all that relentless economic forces in the long run prevail over artificial influences as well as over political expediencies which likewise had their part in the unprecedented price boom of agricultural commodities.

Uncertainty to Continue

Many today still feel, however, that the break that occurred is not sufficient evidence on which to base predictions of future economic deterioration, be it recession or depression. Farm prices have been unrealistically high and the drop could be no more than a natural price adjustment. So far it seems to be just that. Farm commodities have stabilized at their lower levels without further signs of weakness though the market remains uneasy and highly volatile. Few will dispute that in all probability they have passed their peak. Whether they go lower, and how much, depends in the last analysis on the size of the 1948 crops (some of which not yet planted in this country), and adverse growing weather could still check the decline, just as Government price supports will be a vital factor in preventing drastic downturns. In other words, the situation is one of uncertainty that will only resolve itself as the season advances.

But this uncertainty is having important repercussions. From a business standpoint, it would seem, its psychological effect is far more severe than the price break itself has been. Business sentiment has been distinctly jolted and the widening effects of this could be far more conducive to recessionary developments than the correction of a top-heavy farm price structure—the latter in itself salutary and making for greater stability all around. What business currently suffers from most is fear of a recession rather than any concrete evidence of it, taken from an overall viewpoint. Industrial activity has remained at peak levels. Employment is high and so are profits. The cost of living has hardly gone down; food prices since the break have dropped only about 3% to 4% on an average. Wages have not dropped but are tending upwards. Purchasing power remains large, and so does consumer demand. The backbone of price inflation may have been broken, but so far at least there is no evidence of an impending price collapse with resultant drastic economic repercussions.

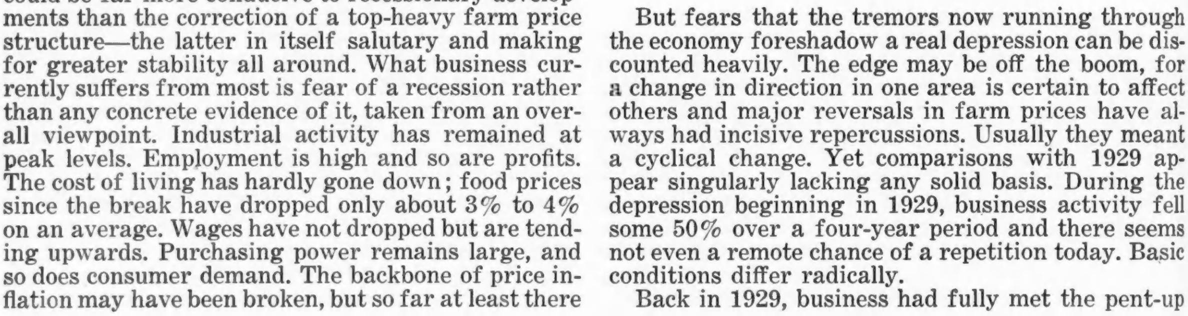
As against this, business sentiment has become extremely cautious and with it business policies; and it is the very change in policies that may and probably will speed the corrective movement now under way. Strangely, something similar happened last year when following favorable crop reports, farm prices declined, business drifted downward, building activity slackened, and when in general there were indications that a moderate recession was under way. Crop failures here and abroad reversed the trend, giving the inflation spiral another turn. However, the betting this time is: "This is it."

Hence business finds itself in a danger zone where commitments become increasingly hazardous, for when prices fall, inventory values shrink and profits melt. Breakeven points are high so that in many cases even a 15% decline in volume might wipe out pretax profits. No wonder, business is becoming hesitant. A 15% volume drop, from current high levels, is not a particularly severe setback, yet the impact on earnings could be painful. Realizing this, business is taking in sail, is reducing commitments, reducing costs, cutting down inventories and generally clearing the decks for a blow. This very action, if widespread enough, in itself argues forcefully for at least some drop in general activity regardless of whether the blow comes or not, whether it is severe or not.

No Depression in Sight

But fears that the tremors now running through the economy foreshadow a real depression can be discounted heavily. The edge may be off the boom, for a change in direction in one area is certain to affect others and major reversals in farm prices have always had incisive repercussions. Usually they meant a cyclical change. Yet comparisons with 1929 appear singularly lacking any solid basis. During the depression beginning in 1929, business activity fell some 50% over a four-year period and there seems not even a remote chance of a repetition today. Basic conditions differ radically.

Back in 1929, business had fully met the pent-up



demand inherited from World War I and was riding along on borrowed money, which gave out. Today the backlog of demand is still perhaps the greatest on record, and there is no credit strain. In the Twenties', the housing shortage had been met as early as 1927, well ahead of the culmination of the boom, and the falling off in the building industry was a potent factor in the collapse of 1929. Today, building potentials have barely been scratched and the housing shortage is severe. There is every reason to believe that lower prices will stimulate, not retard, future building activity.

Other Positive Factors

Also in 1929, due to completion of postwar expansion and stimulation of industry, there was a measurable amount of unemployment. Today there is virtually none, and postwar industrial expansion has still some way to go. In 1929, agriculture was a cruelly depressed industry while today it is prosperous, and strongly buttressed. Farm prices still can go down a good deal without jeopardizing farm prosperity.

And finally in 1929, sentiment was strongly boom-minded while just the opposite is the case now. In the late Twenties', public psychology was one of great popular illusion, with mass optimism about indefinite high prosperity shared by no few business leaders. Against this we have today anti-inflation mindedness, even recession fear psychology, a state of mind that is perhaps the best buttress against economic disaster and disappointment.

In short, economic history holds no record of a depression under conditions such as they exist today. Any comparison with 1929 is clearly unrealistic. For then, also, there was overproduction in many lines while now there is unprecedented worldwide demand. Then, installment buying accounted for 12% of retail sales while now it is only about 6%. Then, the economy was subject to sharp fluctuations while now it holds many elements of greater basic stability, one of them being the strength of labor and their ability to do much to keep power puchasing up.

The Ghost of 1920

There is, also, the ghost of 1920, resurrection of which was inevitable, for in that year the post-World I price boom burst with a bang. It affords a somewhat better parallel but there are important differences in surrounding conditions. In 1920-21, industrial production declined 33% and wholesale commodity prices dropped 45% from their 1920 peaks before turning around. Wage rates declined sharply but not nearly as much as prices, nor as much as the cost of living. No comparable decline is indicated today.

For one, the world's material deficiencies are relatively much greater now than then, since World War II has been a longer, far more destructive and global conflict; and foreign food production this time has been slower to recover. Also today, while food prices have begun to come down at last, wage rates are holding up or even tending higher. Moreover business today is relatively less over-extended as caution has been more prevalent. The money position of individuals, business and banks is sounder than in 1920. Farmers as a group are in much stronger position, especially in respect to indebtedness but also in terms of liquid assets. The consuming public has greater savings, higher income, fewer debts, and employment continues near peak levels. A moderate drop, as might readily occur in a corrective period, would be far from disastrous.

Also whereas in 1920 nature was allowed to take its course, today in the event of a business decline there will be unemployment compensation and other relief that will help shore up purchasing power. In other words, cushions will be available to soften the impact of any recessionary tendency. For instance in 1920, there was no Government price support providing a price floor for farm commodities. Today there is. There was no Eureopean Recovery Program to bolster the economy. Today there is. On balance, in short, it appears quite unlikely that we shall witness a repetition of the experience of 1920-1921.

A repetition would bring the FRB Industrial Production Index down from its current peak of 192 to about 130, an improbable prospect. During 1920-22, the BLS Wholesale Price Index fell from the 1920 peak of 167.2 to a low of 91.4 in January 1922. During the current boom, the index reached a high of 165.5 on January 17, 1948; at present it is around 159. Even in the event that we shall have a real price adjustment, few under today's conditions envisage a fall from the peak of more than 15% to 20% which would bring the index down to a point between 132 and 141. This would be a far cry from the 1922 low of 91.4. Such expectation naturally presupposes that there will be no panicky action on the part of business that may cause the corrective movement to go to extremes, out of all proportion to the situation. Hence the importance of business psychology; at this stage and in the near future, it may be more potent a factor that the actual impact of price correction.

Orderly Price Adjustment

If on basis of sober analysis, we are inclined to deny the possibility of a repetition of either 1929 or 1920-21, what then are we to expect? In all probability an orderly price adjustment starting with, and centering on, prices that are most out of line. Farm prices were most prominent in this category; they were the first to develop an "airpocket." A corrective movement of this sort is to be welcomed; and it is certainly in our interest to have it occur now than at some later date in far more drastic form.

But even if salutary, it is also bound to be painful in some areas of the economy, for price correction will always uncover some over-extension in inventories and other unwise practices. Thus in the process of adjustment there will be some dislocations, most likely accompanied by a temporary increase in unemployment, but dislocations may not be great though the corrective process may run anywhere from six to twelve months before balance is reached and recovery begins. Depending on circumstances conditioned importantly by the attitude of business and labor, it may be of relatively short duration, paving the way for an era of good business.

In the recent past we already had indications that piece-meal correction can go on without upsetting our economy. Readjustments have been taking place in a number of industries, such as radio, tires, women's wear, light electrical appliances, and others will undoubtedly follow. To the extent that such piece-meal adjustments are achieved, any downturn in business, when it comes, should be less severe and of shorter duration.

Some elements of danger of course remain, and they contribute in no small (*Please turn to page* 675)

What.... YEAR-END STATEMENTS Reveal.... FOR 1948

PART II

By J. C. Clifford

Enough 1947 annual reports have come to hand to establish beyond the least doubt that corporate net earnings last year broke all historical records, and by a wide margin at that. This makes the second year in a row that industry has achieved a new peak for profits. So many varying factors have influenced last year's progress by different forms of enterprise and by individual concerns that the picture now assumes unusual significance. Trends have developed or are in the making, in comparing year to year balance sheets, earnings and managerial comments, that will be of decided interest to investors attempting to visualize what may be ahead.

The Department of Commerce has estimated in a preliminary statement that total net corporate proftis after taxes in 1947 reached a spectacular high of around $16.9 billion, after allowing for $11.1 billion to pay the Federal, State and local tax collectors. Such earnings would exceed the showing of $12.5 billion for 1946 by 36%. It should be realized, however, that no steady uptrend in profits during last year brought the total up to the height attained. As a matter of fact, the annual rate of net earnings realized in the first quarter of 1947 was $17.4 billion, but dipped to $16.6 billion in the two following interim periods, pushing upwards to $16.8 billion in the final quarter.

In general, manufacturers fared rather better than distributors last year, and with producers of hard goods outdistancing some groups manufacturing non-durables. In other words, progress by the steel industry was almost uniformly excellent, and many concerns making autmobiles, accessories, radios, refrigerators, machinery and other metal products reported all time record peacetime earnings.

Other Examples

Some of the textile manufacturers, on the other hand, experienced a moderate decline in net earnings and while reports by retailers for the fiscal year ended January 31 have only begun to appear, it is considered pretty certain that most of them will reveal a downtrend in net. Although the meat packers had a splendid year, many large food processors reported lower earnings, particularly in the bakery division. As for the chemical industry, sharp gains by some producers of industrial chemicals contrasted with a lower level of profits for some in the pharmaceutical group.

Comparative Earnings and Operating Data of Selected Companies

	Net Sales—$ Million 1947	1946	Operating Margin 1947	1946	Net Per Share 1947	1946	1947 Quarterly Net Per Share 1st	2nd	3rd	4th
Alpha Portland Cement	$15.4	$13.1	18.8%	19.2%	$3.06	$2.72		Not Reported		
American Tobacco	819.6	764.1	7.6	7.1	5.70	5.96	1.53	1.39	1.39	1.39
Barnsdall Oil	24.4	17.0	63.0	53.0	4.10	2.30	$ .75	$ .99	$1.09	$1.27
Bethlehem Steel	1,032.3	787.7	8.1	5.7	4.98	3.93	1.61	1.20	.96	1.21
Bigelow-Sanford Carpet	62.8	39.2	10.2	5.6	10.64	3.53	1.51	3.01	3.15	2.97
Chain Belt	24.3	13.3	18.2	6.7	5.35	1.46	.89	1.22	.91	2.33
Congoleum-Nairn	45.7	24.5	20.0	14.2	4.55	1.89	2.05		2.50	
Eaton Mfg.	99.6	66.5	12.8	7.6	8.34	4.02	2.01	1.90	2.31	2.12
Goodrich, B. F.	410.2	361.4	12.0	15.0	16.18	17.69	7.82		8.36	
Houston Oil	13.5	10.9	42.0	34.0	3.68	2.08	.80	.74	.84	1.30
Monsanto Chemical	143.4	99.6	18.3	15.4	3.59	2.37	1.20	1.04	.72	.63
National Biscuit	263.9	220.2	14.3	13.0	3.37	2.45	1.01	.83	.69	.84
Radio Corp. of America	312.6	236.1	9.5	6.2	1.13	.56	.28	.24	.19	.42
Union Carbide & Carbon	521.8	414.9	22.0	21.5	7.98	6.11	2.05	1.80	1.98	2.15
Walworth	37.6	28.4	10.6	7.0	1.71	1.25	.41	.30	.46	.54

These divergent trends partly reflect the degree of rapidity with which the various industries have approached a balance of supply with demand or, in the case of the retailers, have readjusted inventories. In the race to maintain ample profit margins in the face of rising costs, also, numerous concerns last year pushed their prices up and thus achieved substantial earnings gains while the going was good.

Abnormal Inventory Profits

One important aspect is that about 29% of the $16.9 billion net earnings piled up last year are believed to have represented abnormal profits from inflated inventory valuations. Net earnings of this character form an illusive base upon which to appraise the true earning capacity of any concern under normal operating conditions, for should prices decline, they might rapidly evaporate. More than one large concern, conversely, shifted in 1947 to policies where last-in-first-out |LIFO) were first employed, often resulting in substantially lower inventory valuations and an understatement of net earnings.

In regard to the status of inventories, as indicated by 1947 balance sheets, we refer our readers to a detailed discussion of this subject in a special article appearing in the current number of our Magazine. From this will be noted that, by and large, the relationship of inventories to sales still reveals conservative ratio compared with prewar. Additionally, numerous large concerns vulnerable to potential price drops have set aside large reserves to provide against this contingency, before reporting final net earnings to their shareholders.

Accumlation of these reserves last year and in 1946 has reached a point with some concerns where a price decline of 10% during the current year could be absorbed without cutting into 1948 earnings, but this does not leave managements feeling any too comfortable at that, particularly as applied to certain manufacturers. Proctor & Gamble, for example, has cautioned its stockholders that the price volatility of fats and oils has warranted establishment of inventory reserves now totalling well over $40 million, and that it is not impossible that the full amount might have to be utilized later on.

On an appended table we present statistics bearing upon 20 selected concerns in order to visualize changes that have occured in the composition of their current assets and liabilities in 1947 compared with the previous year. A study of these figures should prove interesting to our readers, for they reflect more than one important trend that has been shaping up.

In the majority of cases it will be seen that current ratios have tended to narrow last year, although in every instance the position is still entirely sound. That current liabilities have climbed somewhat faster that current assets is understandable in view of large outlays for new plants and equipment last year. With few exceptions, cash assets have shrunken compared with a year ago, as a percentage of total current assets. On the other hand both inventory and accounts receivable have expanded percentagewise in general. The broad rise in volume and the higher priced inventories carried account in the main for the changes just mentioned.

More than half of the concerns listed on our table reported a decline in working capital last year, but here again expansion *(Please turn to page 668)*

Comparative Balance Sheet Items of Selected Companies

		Current Assets ($ Million)	Cash Assets	Inventories	Receivables	Current Liabilities ($ Million)	Current Payables as % of Current Liabilities	Net Current Assets ($ Million)	Current Ratio
			—As Per Cent of Current Assets—						
Alpha Portland Cement	1947	$ 9.9	76.0%	16.0%	5.8%	$ 1.0	56.0%	$ 8.9	9.9
	1946	10.6	80.0	14.2	3.8	1.7	29.0	8.8	6.2
Barnsdall Oil	1947	17.2	60.0	11.8	26.0	5.4	55.0	11.8	3.2
	1946	12.3	67.0	8.3	26.0	3.2	66.0	9.1	3.8
Bethlehem Steel	1947	486.0	43.7	33.8	14.7	195.9	25.8	290.1	2.5
	1946	482.2	53.0	31.8	10.8	150.3	25.6	331.8	3.2
Chain Belt	1947	11.5	17.4	55.0	21.0	4.5	20.0	7.0	2.6
	1946	8.8	23.0	50.0	21.6	2.9	25.0	5.9	3.0
Congoleum-Nairn	1947	20.4	37.7	48.8	13.8	5.7	31.6	14.7	3.6
	1946	18.8	51.7	37.9	9.6	3.4	56.0	15.4	5.5
Eaton Mfg.	1947	33.5	36.8	37.5	25.6	13.5	40.0	20.1	2.5
	1946	29.1	40.3	36.5	23.3	7.7	49.5	21.4	3.8
Goodrich, B. F.	1947	165.7	15.0	54.0	32.0	35.0	87.0	130.7	4.7
	1946	146.7	15.8	54.0	31.0	33.4	98.0	113.3	4.4
Houston Oil	1947	9.9	69.0	13.2	18.2	2.7	41.0	7.2	3.7
	1946	7.1	66.0	14.0	18.4	1.8	40.0	5.3	3.9
Monsanto Chemical	1947	60.2	24.0	45.0	31.0	21.4	61.0	38.7	3.0
	1946	73.5	56.0	16.2	19.4	12.2	75.0	61.3	3.8
National Biscuit	1947	96.8	48.0	44.0	7.0	28.8	24.0	68.0	3.4
	1946	84.3	51.0	41.0	8.0	21.7	29.0	62.6	3.9
Radio Corp. of America	1947	142.9	27.0	43.4	30.2	63.1	61.0	79.7	2.3
	1946	128.7	25.7	43.5	28.5	54.0	66.0	74.7	2.4
Union Carbide & Carbon	1947	378.4	26.6	29.5	17.4	102.6	27.6	275.8	3.7
	1946	256.9	44.0	35.5	20.0	80.3	27.8	176.6	3.2
Walworth	1947	15.2	20.0	60.0	19.0	4.4	27.3	10.8	3.5
	1946	13.8	13.8	62.0	22.5	2.9	33.0	10.9	4.7
American Tobacco	1947	539.3	3.6	90.0	6.5	172.5	5.2	366.7	3.1
	1946	453.4	3.9	90.0	6.2	134.7	8.6	318.6	3.4
Bigelow-Sanford Carpet	1947	30.6	21.0	56.8	23.3	5.7	56.0	24.8	5.4
	1946	26.8	22.0	58.4	19.0	3.4	59.0	23.4	7.9

Is Fear of Inventory Losses *Overdone?*

By

WARD GATES

Declining prices make for increased inventory risk, but business on the whole has prepared against it and is well fortified with safeguards that should minimize any loss potential

The recent decline of commodity prices, widely believed to be the forerunner of a general downward adjustment of our price structure, is creating a good deal of uneasiness about the inventory position of American business. It is realized that the future course of business may importantly depend on what happens to inventories, quite apart from possible losses that may have to be sustained in the event of further price declines that already have skimmed some of the cream from inventory assets of concerns that process farm commodities.

For this reason, inventory and buying policies have become quite important. Should inventory accumulation stop, this would automatically introduce an element of weakness into the price structure in many directions, and any further price weakness in turn would naturally increase the danger of inventory losses. It is not surprising, therefore, that management is not only anxious to foresee how much of a downward trend may develop but also to take whatever steps may be necessary to minimize the inventory risk which, it seems, is today's prime bugaboo in business thinking.

There is good reason for this. Business is mindful of the fact that past inventory losses have often been quite severe. In 1920 and in the early 1930s, they ran to several billions of dollars a year. What's more, inventories have expanded enormously since the war's end and last November stood at a new postwar high of over $42 billion compared with some $28 billion at the end of 1945. All this raises the question: Just how vulnerable is business to the danger of inventory losses?

Any inventory of the size indicated implies of course a good deal of risk. The loss potential won't be great as long as price reaction is confined to farm commodities though their processors naturally are tensely watching further price developments. But should price declines spread to industrial raw materials, implications would be far more serious. Any resultant dumping of inventories were bound to have a snowballing effect pricewise; it would not only put a quick end to the postwar boom but also lead to sizeable losses. If business were to decide on only partial liquidation of inventories, they could hit the markets hard. Suspension of inventory buying, due to nervousness over price trends or in anticipation of a business decline, would have a similar effect.

And there is plenty of evidence that inventory policies have become quite conservative of late. Requisitions are being carefully screened to secure strict control over stocks on hand. A shorter range is dictated by price uncertainties with forward buying confined to 90 days requirements or,

Comparative Position of Manufacturers' Inventories and Sales

1947	($ millions) Beginning of Year	%	End of Year*	%
Total Inventories	$20,259	100%	$23,714	100%
Purchased Materials	9,604	48	10,412	44
Goods in Process	4,773	23	5,755	24
Finished Goods	5,882	29	7,547	32
Monthly Sales	$12,849		$14,624	
Ratio Inventories to Sales	1.6		1.6	
1939				
Total Inventories	$8,926	100%	$9,632	100%
Finished Goods	3,959	44	3,903	40
Materials and Goods in Process	4,967	56	5,729	60
Average Monthly Sales	$3,930		$3,930	
Ratio Inventories to Sales	2.2		2.4	

Source: Department of Commerce. *—November 1947.

preferably, less. This amounts more or less to a "hand-to-mouth" basis and even a sixty days coverage is becoming increasingly desirable. In short, extreme caution is being exercised but that's all it is. There are no signs of panic whatsoever and for this, too, there are good reasons which we shall discuss presently.

But first let's analyze the inventory trend since the end of the war, and the present status, and I might as well begin by stating that most of the rise in inventories that has occurred reflects price inflation. Whereas, since VJ-Day, total business inventories have risen some 57%, prices have advanced 52%. Physical stocks therefore are not nearly as large as dollar figures indicate. In fact the primary danger in the current inventory situation is the inflated cost of goods rather than any excessive rise in physical volume. The latter is actually not only not out of line with current sales, but the ratio between the two is substantially smaller than in prewar years.

Not All Situated Alike

For some months now, repeated warnings of the danger of excessive inventories have led generally to fairly conservative inventory policies though this does not mean that all firms or all lines of business are equally well situated. There are the usual variations but the overall picture appears fairly sound in relation to present-day and prospective business. Adjusted for price changes, for instance, manufacturers' inventories are only about 25% above 1939 while sales have increased far more drastically in most cases. Stocks of wholesalers are up about 15% and those of retailers only about 7%. These increases look far from alarming when viewed in the light of current demand and overall industrial activity. But the rise in commercial loans—many for inventory purposes—also attests to the strain that inventory accumulation at current prices has put on working capital in many cases.

At the end of 1947, inventories of manufacturers, wholesalers and retailers had increased about 20% over the 1946 year-end level. After allowance for rising prices, it is estimated that actual inventory growth amounted to about $1-1/3 billion as compared with nearly $4 billion the year before. This plainly reflects the more conservative inventory policies which were followed during a large part of last year.

Last Year's Trend

At the end of 1946, several influences were still operating to maintain a high rate of inventory accumulation. Balance in the composition of physical stocks had not yet been attained; many items were in short supply and steadily rising prices helped maintain the upward pressure on inventories—both factors that were diminishing in force as deliveries became more regular. At the same time, business policy was influenced in the first quarter last year by a slackening of sales in some lines, by widespread warnings against inventory overextension on top of the large and widely publicized 1946 increase, and by the feeling that the high volume of exports was not likely to continue. Moreover, the temporary stabilization of prices in the second quarter removed the stimulus to forward purchasing. As a result of all this, inventories rose very little during the second quarter.

After mid-year, however, the stage was set for a new but more moderate upswing by the change in business tempo that then occurred, with the upward trend influenced in no small measure by the general renewal of the price rise. The peak was reached in November. Overall business inventories fell some $640 million in December as the Christmas decline in retail stocks more than offset further increases in the holdings of manufacturers and wholesalers. Retailers were the only group to cut their holdings of both soft and hard goods. Manufacturers and wholesalers ended the last month of the year with larger stocks of hard goods but smaller stocks of soft goods.

A breakdown of business inventories during the last few months of 1947 is given in the accompanying tabulation based on Department of Commerce figures. They show that wholesalers entered the new year with the largest stocks they ever had, some $7.37 billion compared with $5.9 billion at the end of 1946. Manufacturers' holdings were $23.7 billion, indicating a rise of $3.4 billion for the year, against a $4 billion rise in 1946. Retail stocks were $10 billion compared with $8.7 billion in December 1946. Of the three categories, wholesale inventories are regarded perhaps the most vulnerable, should retail demand fall off. Apparently, in many lines, they are big enough to fill retail orders with little or no delay.

Manufacturers' inventories during 1947 were tending to level off but (*Please turn to page* 658)

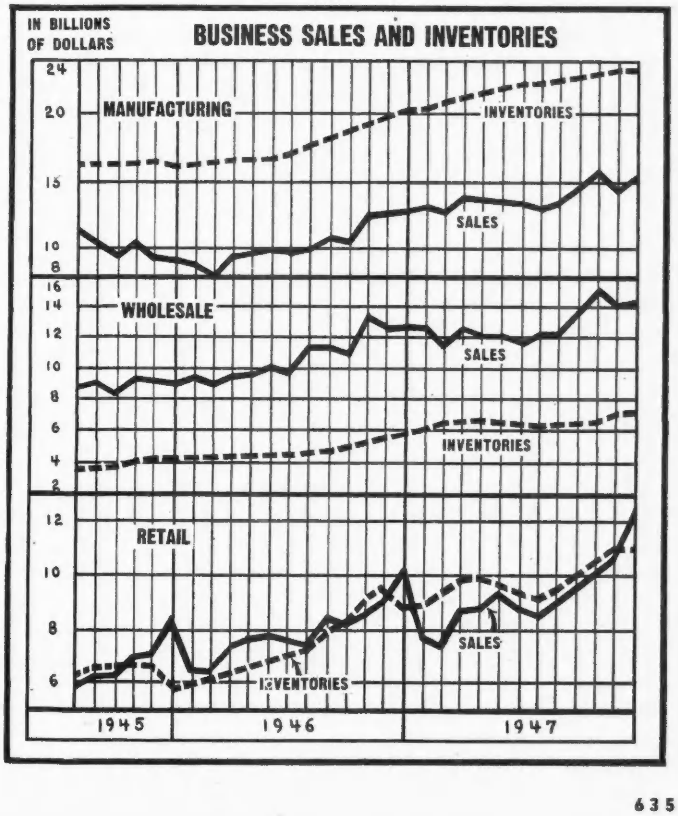


Photo by Ewing Galloway

B.L.S. UNDER ATTACK

By E. K. T.

DISTILLERS, accused by congress members of failure to practice the principle they preach—moderation—have drawn the penalty of further controls. The new order extends through Oct. 31, may be carried beyond that point. Behind the decision was the finding that diversion of grain to production of alcohol was running at the rate of 6.2 million bushels a month, against 2.5 million bushels allowed in January. Best advice congress could obtain from state and agricultural departments was to the effect that increased food supplies will not materialize until after mid-year. Distillers complaint that they are being discriminated against and that other grain users should be controlled also isn't carrying weight. The abuses are not found elsewhere.

WASHINGTON SEES:

Bureau of Labor Statistics (a misnomer, since its data usually report cost-of-living rather than payrolls) is headed for the country's first pages.

Its summaries of food prices are under critical scrutiny on Capitol Hill and elsewhere. One Washington listening post for many of the nation's leading food producers and distributors ruffled the staid statistical bureau by reporting to his clientele that the data "are as phony as a $3 bill," and he went on with this inference:

"Stories in the papers recently are that the unions are starting their annual move for another round of wage increases. BLS would not want to embarrass them in these efforts!"

Crux of the dispute is the fact that BLS has been reporting miniscule drops in retail food prices whereas chain stores in their advertisements—at least in Washington—show larger percentage reduction. Naturally the government agency reports buttress unioneers, arguments for added cost-of-living raises. But their spokesmen are not following a standard script. In some quarters BLS findings are being paraded as conclusive proofs; in others, argument is being made that prices are being lowered only for the busy period of contract negotiations now setting in, will be readjusted upward later.

CONGRESS can be expected to crack down on payments for veterans education—after the next election, and regardless of which party is the winner. There will be no corrective measures in the current session. Political recrimination might be quick, and severe. Bureau of the Budget studies show 200 million dollars of educational benefits are being poured into "hobbies"—sport flying and ballroom dancing, 90 per cent of which is regarded unjustified. Veteran organizations are girding for a fight on the theory that the GI's should be privileged to select their own types of "education" but congressmen are determined, next year, to establish relationship between cost and benefits.

CLAIM that anti-union business men are "Communist Allies" and are plotting a course of destruction of unions and setting up company guilds in their place is being widely circulated by the Machinists Union and may become a means of rallying some votes against congressional supporters of the Taft-Hartley Law. In the meantime, however, lawmakers of both parties who indorsed the T-H Act have been assured by their own headquarters and by an independent survey that there is almost no chance of any sitting legislator being ousted solely on this ground. The usual campaign mortalities are to be expected but the preview is consoling to scores who had been jittery.

SHELVING of the St. Lawrence Waterway project by senate action recommitting it "for study" marks the opening of the mopping up process which congress launches with passage of the half-way mark in a session. Universal Military Training is scheduled to be next and the brushoff of many other controversial measures can be expected in March.

As We Go To Press

Up on Capitol Hill they're already referring to him as "Mr. President,'' and Senator Arthur H. Vandenburg of Michigan, hasn't knocked anyone down as yet for making the not-too-subtle suggestion. His friends have analyzed his disavowal statements of the past and have told him there is nothing inconsistent in letting it be known that he is receptive to the idea of running as top man on the GOP ticket.

Increasing proofs that Gov. Thomas E. Dewey and Senator Robert A. Taft are slowly strangling each other's nomination chances has sharpened Vandenburg's interest. He knows he'll fall heir to most of Dewey's strength in the event of deadlock. Taft probably would toss his in a different direction. Even in the senate there are petty jealousies and the Ohioan is not immune to that weakness!

Odd part of the nomination sweepstakes is the fact that prospective candidate strength seems to be in opposite proportion to eagerness of the personality. General Dwight D. Eisenhower, who would have no part of nomination on either ticket, could have selected the one he preferred and win the nomination – if polls can be believed. Vandenberg has not exactly said no, but he hasn't said yes. And he is one of the front runners today.

Another facet of the political picture that hasn't been completely polished as yet, shows the republicans with a "southern revolt.'' President Truman hasn't exclusiveness in that regard. The civil rights legislation could be the undoing of Truman – and of Taft! Texans are leading the rebellion and they're tossing angry looks in direction of Taft for his espousal of the hated FEPC, anti-lynching, anti-poll-tax bills. Unfortunately for the Ohio senator, his delegate strength is largely concentrated in the south – a heritage from his father.

The President's strategy in handling this issue has now become clear. He is gambling that the Solid South will blow off steam but stay in the ranks in the hope of working out its grievances from within. And he hopes a firm stand for the human rights bills will cement the large-city Negro vote behind him.

When Boss Ed Flynn lost the Bronx congressional district to an American Labor Party candidate, headquarters analysts immediately set to work. After disposing of the protest springing from the Administration's lack of action on the Palestine situation, they came up with the Negro vote disaffection as the next important cause. President Truman promptly took a vacation trip - to the virtually all-Negro populated Virgin Islands!

Any hope that southern governors might have entertained of causing the President to make a politically suicidal switch from his declared policy on the civil rights bills was dashed by Committee Chairman J. Harold McGrath. They asked the chairman six carefully prepared questions. They received no for the answer six times.

Congress will sidestep the equal pay issue raised by two of its women legislators – Reps. Helen Gahagan Douglas of California, and Margaret Chase Smith of Maine. Hearings have been conducted in the house, but the Senate will be "too busy" to take it up from that point. From a standpoint of union organization and vote getting, the bills are ideal. But industrial economists point out they do not take into consideration many practical difficulties. And, some women leaders are warning, equal pay might mean displacement of thousands of women by men.

A losing fight in congress won't mean an end to the agitation however. The drive will be heightened within the union ranks where it already has achieved some degree of success. United Automobile Workers is strong for it, attained a 50 per cent increase for women in one notable instance – Hudson Motors.

The Administration after several years of discounting the complaints of property owners that federal laws, particularly those relating to rent control, are inequitable, is finding that landlords have real troubles, too. More than one-half of the 230 million acres of range lands in the west need restorative attention, Secretary J. A. Krug has advised the President.

Important as the range territory is, upkeep measures have been confined to about 1 million acres a year. The Department of Interior is stepping it up with a program effecting 11 million acres underway, and plans on paper for improvements to another 49 million acres. Still a long way from 230 million!

Being closely watched by groups who are attempting to steer government away from centralization is the program of the National Security Resources Board. The agency came into existence as a sidelight of the military forces merger. It could become more costly than the unified military arms.

Currently being made are surveys out of which will grow a blueprint to place the nation on an emergency basis – with the word "emergency" given broader implications than any of those adopted in the past. It could, for examples, extend to housing programs, industrial locations and development of natural resources. It is gathering under its tent many of the planners of now-defunct federal bureaus. Saving grace is the fact that it is merely advisory, cannot implement its decisions and findings without funds. Congress holds the throttle!

British trade unionists are passing on to their counterparts in the United States the advice that leftist control of government can cause too great a swing away from center. Eternal vigilance is being counselled. General Secretary Lincoln Evans of the Iron and Steel Trades Federation has warned his union that it and other similar groups will become "another arm of the Russian Foreign Office" if precautions are not taken.

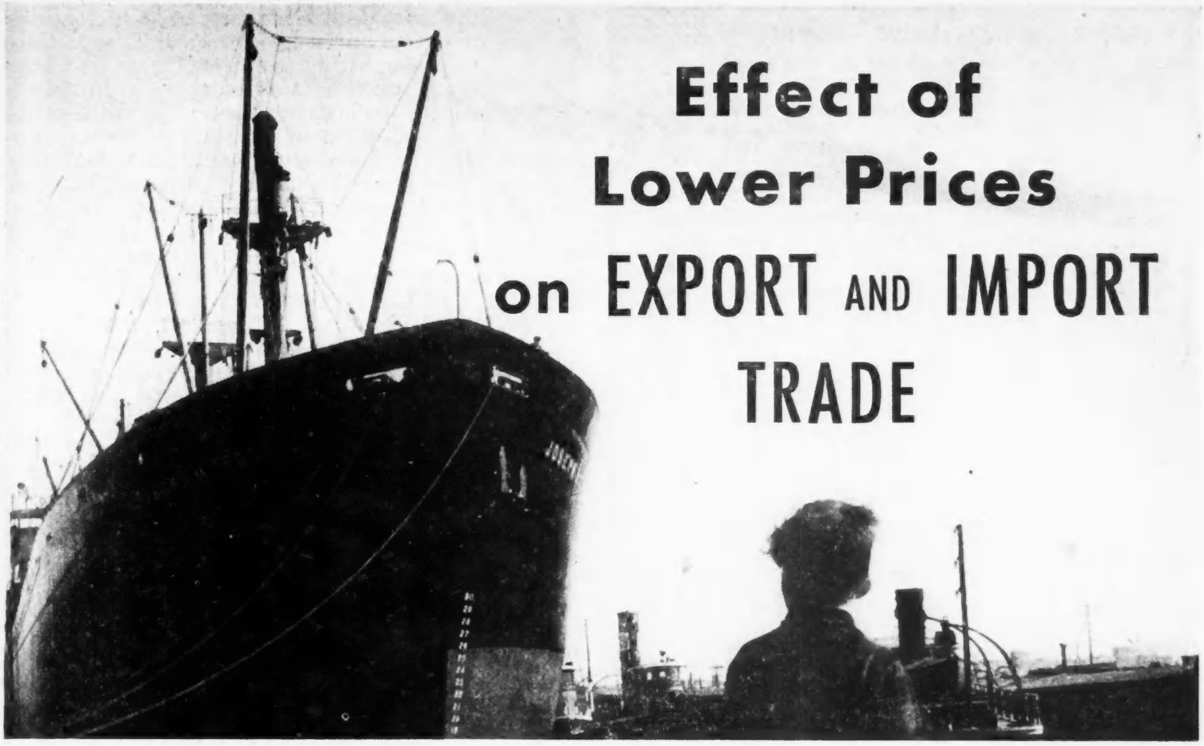
Evans pointed out that only a few weeks ago the commies were the most ardent advocates of increased production, but now their line is that higher output will only serve the ends of "dollar imperialism." The lessons are not being lost on unions here. First to pick up the warning was AFL President William Green, who has circulated the information among his federated branches.

Food for thought for workers in the upper age brackets – 45 years or older – is the warning by BLS Chief Ewan Clague that any future depression will hit that worker group hardest. The problem was not as great a generation or more years ago because of the cold, grim fact that a lesser number of workmen lived to be 45. But now there are more, and accent is on youth, in the employment offices. The counsel could turn greater attention on the economic issues of the coming campaign, away from the more exciting and dramatic ones.

Democrats are grasping at political straws by hoping that a minor tilt between Pennsylvania's Gov. James H. Duff and Senator Edward Martin can be blown up into a full cleavage. Duff is strong for the Marshall plan, while Martin is slightly less than lukewarm for it, unless there is sharp reduction in its costs. Duff heads the 73-member delegation to the GOP national convention, and Martin is the "favorite son' selection. But Martin doesn't regard himself even an outside "dark horse." The delegation is instructed for the senator on the first ballot. After that, he doesn't care. The difference on ERP can't possibly go into the campaign.

In Washington they're drawing a parallel between the political fate which befell Ramon De Valera and the problem facing President Truman: "Both seem to have lost the south!''

Effect of Lower Prices on EXPORT AND IMPORT TRADE



By V. L. HOROTH

If last month's decline in prices of grains and other staples, one of the most severe on record, should mark the beginning of the long anticipated business let-down in the United States, it may prove to be one of the major factors influencing our foreign trade in 1948. The other major factor is likely to be the "grub staking," now under consideration by Congress, of friendly foreign countries in their post-war reconstruction.

There will, of course, also be other factors shaping our foreign trade. Our imports will undoubtedly be affected by the devaluation of the French franc and possibly other European currencies, as well as by the tariff concession negotiated last fall in Geneva. The new tariff schedules became effective on January 1, 1948. Last but not least, our foreign trade may be influenced later in the year by the reappearance of Germany and Japan as sources of competitive manufactures and at the same time as markets.

Importance of ERP

The importance of the European Recovery Program for our foreign trade was discussed in this publication a few months ago. It was pointed out at that time, on the strength of the Harriman Committee findings, that the "Marshall Plan," if approved without serious reduction, would maintain the domestice merchandise exports within about 10 per cent of the 1947 exports of $14.7 billion. It was also stressed that while our exports to Western Europe may be somewhat larger in 1948 than they were in 1947, our exports to Canada and Latin America may be as much as $1 billion smaller, and our exports to all other countries about $1/2 billion below last year. Likewise we anticipated at that time a decline in our exports of foodstuffs, inedible vegetable and animal products, textile manufactures and consumer goods in general, largely because of the growing shortage of gold and dollar resources of our principal customers. With lower prices, physical exports might exceed earlier expectations.

Other Changes

What other changes are likely to result from the price slump? That will depend, above all, upon the extent of the price decline. Thus far the price slump has been limited to grains and fats and oils. Being the most seriously inflated of all major commodities, they have also been the most vulnerable. Other still highly vulnerable commodities of international importance include copra (over 600 per cent higher than before the war), burlap, and rice (both over 300 per cent above). Cotton and hides, less seriously inflated, have apparently declined because they are sensitive to consumer resistance and the changing business outlook.

The prices of the great tropical and sub-tropical staples, such as coffee, cocoa, rubber and sugar, have been affected hardly at all as yet. The same is true of the leading non-ferrous metals. Because of continuous shortage, the prices of petroleum, steel, building materials, industrial chemicals, fertilizers, and heavy electrical equipment are more likely to advance than decline. There may be a reversal even in grains, for the present price levels presuppose the continuation of favorable weather till harvest time.

Proposed Exports to the "Marshall Plan" Countries

(in millions of dollars—at July 1947 prices)

Commodity	From United States Apr.-June 1948	From United States July '48 to June '49	From Other West. Hemisph. Apr.-June 1948	From Other West. Hemisph. July '48 to June '49
Bread Grains	218	535	175	669
Coarse Grains	6	83	52	411
Fats and Oils	20	80	56	222
Sugar	7	21	67	201
Meat	2	6	77	308
Dairy Products	75	160	11	29
Rice	1	6	8	33
Coffee	......	......	23	134
Other Foods	9	65	17	77
Tobacco	52	210	6	25
Cotton	143	438	42	167
Nitrogen	2	14	4	22
Coal	92	297	......	......
Petroleum	121	530	......	......
Timber	24	96	43	171
Agricultural Machinery	......	136	......	22
Coal Mining Machinery	......	82	......	......
Trucks	20	81	3	13
Freight Cars	......	60	......	......
Steel Equipment	......	48	......	......
Finished Steel	45	182	......	......
Electrical Equipment	......	95	......	......
All Others	37	140	60	197
Grand Total	874	3,365	644	2,701

Source: "Outline of a European Recovery Plan," pages 106 and 108.

Creation of Dollars in 1947 and 1948

(All figures in billions of dollars)

	Approx. 1947	Anticipated 1947
I. Imports of Goods and Services		
Commercial Imports	$5.7	$6.4
Purchases Abroad by the Army	.3	.3
Services Including Tourist Expenditures	2.0	2.4
Interest and Dividends Paid to Foreigners	.2	.2
	8.2	9.3
II. U. S. Govt. Aid and Loans (appropriated)		
British Loan	2.8	.3
Export-Import Bank	.8	.5
Surplus Property Credits	.3	.1
Civilian Supplies	1.1	1.0
UNRRA and post-UNRRA	.8	.2
Greek-Turkish Aid	.1	.3
Interim Aid	.1	.3
	6.0	2.7
III. Bretton Woods Institutions		
World Bank	.5	.3
Int. Monetary Fund	.5	.5
	1.0	.8
IV. Private Remittances and Aid	.7	.7
V. Liquidation of Assets		
Gold Imports	3.0	1.5
Draft on Dollar Balances	1.5	
	4.5	1.5
Grand Total	20.4	15.0
VI. New U. S. Government Aid		
Marshall Plan	......	5.0
Aid to China	......	
New Aid to Turkey, Etc.	......	
	$20.4	$20.0

Hence the price decline may not be so farreaching as many prophets hurried to forecast. Though some business recession owing to retrenchment and price readjustments may be unavoidable, a full-blown business depression does not seem to be in the cards. However, a discussion of domestic business prospects is not within the scope of this article. Suffice it to say that a serious business depression at this point would have a devastating effect on other countries. Their earnings of dollars from the sale of goods and services to us would be impaired. Moreover, a depression here would probably necessitate trimming the E.R.P. and other aid in the world's rehabilitation. It would be the very thing that "Mr. Stalin and Associates" have been waiting for. The British, in particular, are greatly concerned about such prospects because without the E.R.P. there is nothing between them and bankruptcy.

Salutary Effect

Assuming that there will be no depression in the United States, but only a business readjustment, a decline of over-inflated food and certain raw material prices would have a salutary effect not only on our domestic economy, but on international economy as well. In the first place, larger supplies of foodstuffs and other consumer goods would make much easier the fight against inflation in such key counrties as Great Britain, France, and Italy. If people have something to use their money for, confidence in currencies is more likely to return.

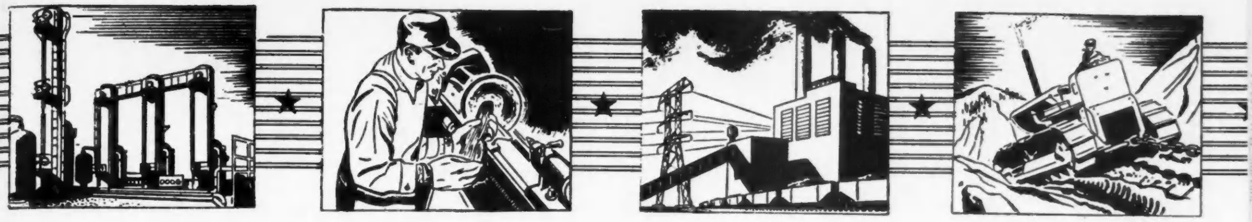
Second, lower prices of food and raw materials would permit larger expenditures for rehabilitation. Just as the urban consumers in the United States in recent months have been spending an unprecedentedly high proportion of their income for food, so the industrialized countries of Western Europe have been forced to divert an extra high proportion of their available dollars for foodstuffs and raw materials. It should in the future take fewer of their exports to pay for a certain fixed amount of imports. In the economic lingo, their "terms of trade" should improve.

Great Britain and Western Europe in general should be the greatest beneficiaries of increased food production at home and in "inconvertible currency" areas as well as of better "terms of trade." Larger food and raw material production in colonial areas and in Eastern Europe would permit additional saving of dollars. It should then be possible to divert these dollars for larger purchases of raw materials which like cotton can be obtained in sufficient quantities only in the dollar area. Above all, it should be possible to buy here more industrial and other technical equipment.

Should Speed Recovery

Thus the realignment of agricultural and industrial prices should be helpful in speeding up the industrial re-equipment of Western Europe. In turn this would enable Europe to pay for a larger proportion of her imports. But while, on the one hand, the acceleration of industrial rehabilitation of Western Europe would probably lower the cost of the E.R.P. to us, it would, on the other hand, result in an earlier return of intensified competition in international markets.

In the United States the lower prices of farm products will result (*Please turn to page* 674)



1948 Special Re-appraisals of Values, Earnings and Dividend Forecasts

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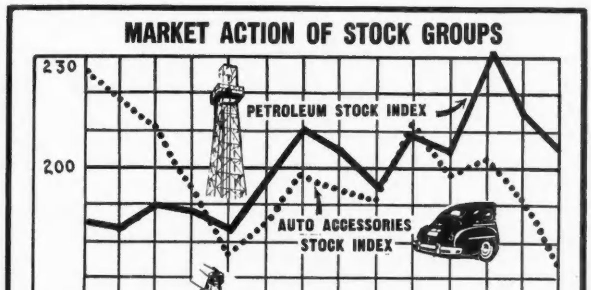
Prospects and Ratings for Oils, Steels, Machinery Shares, Automobiles and Automotive Accessories

Part III

The break in commodity prices, heralding a turning point in the postwar price inflation, forcefully calls to attention that 1948 is likely to be a year of uncertainty as well as challenge to business and industry.

While economic fundamentals continue strong, the new developments confront business with problems which it has not had to face for many years, not the least of them a return to more competitive business conditions and the possibility of some downtrend in overall business activity while price correction proceeds. It is a prospect that tends to inject a good deal of caution, if not conflicting thinking, about the course of our economy in the months to come.

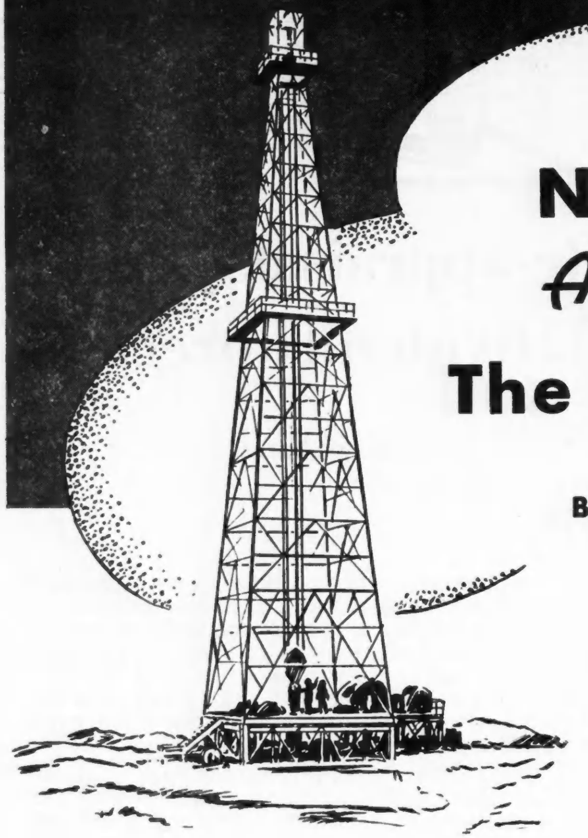


To establish and maintain a constructive investment program under current and prospective conditions, close and continued scrutiny and interpretation of fundamental trends is a prime requisite. Only by recourse to reliable facts and trained judgment can the investor protect his position. From a stock market standpoint, the year ahead may be a difficult one, perhaps full of contradictory movements and reactions. All the more, such a prospect makes it imperative to keep informed and recognize trends in the making.

To assist our subscribers in arriving at sound investment decisions, The Magazine of Wall Street presents its Security Appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important developments. By this method, the maximum number of industries are periodically reviewed on the basis of all available information, supplemented by statistical data for ready comparisons. Additionally, brief comments on the status of each company listed are presented.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



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New Factors *Affecting*..... The OIL Industry

BY GEORGE L. MERTON

Record demand, record output, record profits, and yet increasing difficulties in meeting enormously swollen requirements for virtually every type of petroleum products—these are the main features of last year's oil industry experience. The picture in 1948 may well be similar.

Our economy has been geared to oil for many years with the result that oil industry activity has become a reliable yardstick of general business. On this basis, 1947 was an unprecedented boom year. While the general business outlook this year is viewed increasingly with caution, there is nothing to suggest that the demand for petroleum products will decline. Rather, continued tightness in the demand-supply situation is indicated.

Some figures of last year's consumption and demand tell the story of the industry's achievements as well as its problems. Domestic use of oil products was over 30% higher than in 1941 and some 12% ahead of 1946. Total demand imposed on the industry the task of supplying some 2.11 billion barrels of petroleum, or 5.8 million barrels daily. This exceeded by 8.3% the wartime peak and previous all-time record established in 1945. In spite of huge output, supply was barely able to meet requirements.

Peak Output

Domestic crude oil production averaged about 5.2 million barrels daily and imports about 450,000 barrels, the latter just about enough to offset exports. Indications are that before long, we shall become a net importer—perhaps by a fairly substantial margin, after having been one of the greatest sources of exports through almost the entire history of the petroleum industry. This is one of the fundamental changes in the U.S.A. oil position currently taking place, almost unnoticed in the flurry over shortages. But it is the direct result of the latter, though in part due also to a desire to conserve our own resources.

In considering the uptrend in demand, attention must be given to the huge increase which has taken place in the use of distillates or heating oils. Although most of the 750,000 new oil burners installed last year in American homes did not begin to use oil until this winter, distillates consumption for 1947 was 22% ahead of 1946 and 65% greater than in 1941. Correspondingly large increases occurred in consumption of kerosene and residual fuels. These disproportionate increases have much to do with the shifts that have occurred in the basic demand and supply situation, with the threat of a gasoline shortage next summer and several more years of tight fuel oil supplies.

Basic Problems

Fundamentally, of course, the root of the problem is that consumption is increasing faster than production, transportation, refining and distribution facilities. Hence the oil industry's ambitious $4 billion expansion program, the increasing emphasis on imports, the great interest in foreign oil reserves, the attention lately given to synthetic oil. The "oil crisis" has not been due to lack of production; output has been at peak and still is rising, but it is steadily outdistanced by consumptive requirements.

The cause is to be found not only in the general business boom, the high degree of motorization and in mounting mechanization of agriculture, the greatly stepped up aviation needs and heating requirements, all important factors in the oil demand picture as they are. It rests also, and importantly so, in the disproportionate increase in the use of petroleum products relative to other energy sources. Thus, over the last five years, the use of coal in-

creased 5%, but the use of motor fuel rose 18%, of kerosene 46%, heavy fuel oil 34%, and heating and diesel oils 68%. These figures are full of meaning. They reflect the competitive struggle between coal and oil that has resulted in a victory for oil so decisive as to become embarrassing, and with the possibility of a reversal of trend on a relative basis.

At present, oil and natural gas are supplying roughly one-half of the nation's energy production, with coal and water power furnishing the other half. In an endeavor to meet existing needs, the oil industry for some time now has been producing fuel oil at the expense of gasoline. As a result, it may not only be harder pressed next summer to meet motor fuel requirements but this may also find reflection in near term earnings since gasoline is more profitable than distillates.

Clearly, while the oil industry is endeavoring to meet the increasing demand for its products reflecting the shift from coal to oil, there is a limit to the amount of oil reserves in this country. In the interest of conservation of an irreplaceable natural resource, supplemental ways must be found to meet the nation's heating requirements, such as greater reliance on coal and synthetics.

The industry has already reached the point of forced production. As against a maximum efficient rate of output of some 5.27 million barrels of crude oil daily, production is currently running around 5.35 million barrels compared with estimated demand of 5.33 million barrels. In other words, the industry is forcing the wells, thereby lessening the ultimate recovery of oil from them. In the long run, it cannot afford that.

Although domestic crude oil reserves in recent years have been well maintained despite record withdrawals, this was done largely through expansion and improvement of existing properties while new discoveries have lagged. The discovery trend until very recently has been consistently downward despite substantial outlays, but was reversed early this year by a big strike in western Texas which alone brought in nearly one-third of last year's total discoveries of some 198 million barrels. Proved crude oil reserves are currently listed at around 23 billion barrels, equivalent to about 12½ years supply. Actually, of course, potential reserves are much larger, but it costs money—increasingly more money—to find and exploit them. Most existing reserves were acquired in earlier years at low cost, far below what would be involved in their replacement. Drilling expenses meanwhile have risen sharply, making for higher-cost production from new discoveries and for higher depreciation charges in the future. This is an important point in appraising the longer range earnings outlook.

Much the same applies to refinery capacity, most of which was built at prices considerably less than today's replacement values, with resultant low depreciation charges compared to what must be made against new installations. Since the normal life of refinery equipment is about five years, an increasingly greater proportion of future earnings will be needed for replacement purposes. Refineries at present are operating full blast and a good many new facilities are being planned to step up output of badly needed refined products. Shortage of steel so far has been a handicap, *(Please turn to page* 665)

Statistical Data for Leading Oil Companies

	Est. Total Proven Reserves* (mill. bbls.)	—Net Per Share— 1946	Est. 1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Investment Rating	COMMENTS
Amerada Petroleum X	350	$5.61	$9.00	$3.00	3.6%	107 -73	$84	9.3	B1	Strong crude oil producer with relatively large reserves. Favorable earnings trend indicated despite higher drilling costs. Dividend well protected.
Atlantic Refining	500	3.26	5.32 A	1.50	4.8	40 -30⅛	31	5.8	C+2	One of the larger medium-sized oil units, with expanding crude reserves. Stock has moderate leverage. Well maintained earnings, dividends indicated.
Barnsdall Oil X	200	2.30	4.10 A	1.55	4.5	39¾-20¾	34	8.3	B1	Important crude producing unit, with good reserve position .Further earnings gain, stable dividend indicated.
Cities Service X	350	6.41	10.00	1.50	4.6	41 -23¼	33	3.3	B2	Important oil unit with strong stake in natural gas. Improved financial set-up makes for substantial earning power. Higher dividend indicated.
Continental Oil X	500	4.05	7.50	2.50	5.1	55⅞-35	49	6.5	B1	Strong crude oil position points to further earnings gain. Higher dividend indicated. Longer term outlook favorable.
Gulf Oil X	6,695	6.42	9.50	2.75	4.6	76⅝-57½	60	6.3	B1	Ranks among largest crude oil producers and refiners, with important interests in Venezuela and Middle East. Favorable earnings trend, well maintained dividend indicated.
Humble Oil	2,500	4.00	7.00	3.00	4.3	79¼-55¼	70	10.0	B1	Small but well integrated unit with stake in chemical fertilizer field. Prospect points to higher earnings. Dividend secure.
Lion Oil	40	3.39	5.50	1.75 b	5.6	35⅛-21¼	31	5.6	B1	Controlled by Stand. Oil of N. J. Has largest crude oil reserves of any domestic oil unit. Rising earnings, well maintained dividend indicated.
Mid-Continent Petroleum	125	5.43	10.00	3.25	7.9	48½-33	41	4.1	B2	Improved crude position covers about 60% of refinery needs. Expansion should sustain high earnings. Dividends should continue at $2 semi-annually.
Ohio Oil	550	2.78	4.50	1.75	6.3	35¼-21	28	6.2	B1	Improved crude position bolsters earnings outlook, dividend prospects. Large reserves point to full participation in future industry growth.

A—Actual earnings.

b—Adjusted.

*—Including foreign reserves.

(Continued on page 644)

(Continued from page 643)

Statistical Data for Leading Oil Companies (Cont.)

	Est. Total Proven Reserves* (mill. bbls.)	—Net Per Share— 1946	Est. 1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
Pan-Amer. Pet. & Tran.	....	1.57	2.50	.75	5.3	18 -13	14	5.6	C+2	Engaged chiefly in refining and distribution, with crude oil interest small. Well maintained earnings, possibly higher dividend indicated.
Pantepec Oil of Venezuela	....	.71	1.25	.64	5.8	13 - 8⅜	11	8.8	C1	Operates concessions in Venezuela held jointly with Creole Petroleum Co. Accelerated drilling program should boost earnings. Dividend likely maintained.
Phillips Petroleum X	750	4.60	6.50	2.50	4.4	63¾-50½	57	8.8	B1	Well integrated concern with strong crude oil position and big stake in manufacture of natural gasoline. Rising earnings, well maintained dividend anticipated.
Plymouth Oil	100	2.01	4.01 A	1.00 a	2.2 a	49½-21	45	11.2	B1	Engaged principally in sale of crude oil and natural gas. Rising earnings, stable dividend indicated.
Pure Oil	450	3.74	4.77 A	1.50	5.8	30¼-21¼	26	5.5	B1	Medium sized integrated oil unit with strong crude oil interests. Expansion, modernization improves competitive position. Higher earnings, stable dividend indicated.
Quaker State Oil Refg.	....	2.63	2.98 A	1.75	7.9	24¾-20	22	7.3	B1	Manufactures lubricating oils. Prospect points to sales uptrend, reflecting high industrial activity, spurt in auto travel. Moderate earnings gain indicated; dividend secure.
Richfield Oil	220	1.76	2.75	1.50	8.8	18½-13¾	17	6.2	C+1	Crude output small in relation to refinery needs, but improving. Aggressive marketing program points to higher earnings. Dividend should be maintained.
Seaboard Oil of Delaware X	150	2.43	4.75	1.00	2.6	44¾-23	39	8.2	B1	One of smaller crude oil producers with well established position. Somewhat higher earnings, possibly larger dividend indicated.
Shell Union Oil X	900	2.44	4.00	2.25	7.5	35⅝-24¼	30	7.5	B1	Leading integrated concern and nationwide marketer. Expansion of facilities forecasts higher earnings, possibly larger dividend.
Sinclair Oil	650	2.30	3.25	1.00	6.3	18½-14	16	4.9	B—1	Large independent oil company with important stake in all industry divisions. Expansion should aid sales, earnings. Dividend may be increased.
Skelly Oil X	225	10.30	18.00	2.50	2.5	117⅞-65	100	5.5	B1	Fully integrated, with large low-cost reserves. Earnings may reach $20 annual rate, but dividends will probably continue conservative.
Socony-Vacuum X	2,749	1.87	3.00	1.00	6.2	17¼-13¾	16	5.3	B1	One of leading integrated concerns with large domestic, foreign interests, latter in Middle East and Venezuela. Prospect points to further earnings gain, possibly higher dividend.
South Penn Oil	....	3.06	4.00	3.50	9.5	38½-27	37	9.2	B1	Largest producer of Pennsylvania crude oil. Moderate earnings gain indicated. Dividend should be maintained.
Standard Oil of Calif. X	3,900	5.15	7.25	3.20	5.5	63 -50¾	58	8.0	B1	Large integrated West Coast concern with important Middle Eastern interests. Holds substantial low-cost reserves; also concessions in Venezuela. Higher earnings, well maintained dividend indicated.
Standard Oil of Indiana X	1,000	4.43	6.00	2.00	5.3	44¼-36⅞	38	6.3	B1	Dominant Middle Western refiner and marketer, with improving crude oil position. Improved refinery efficiency points to rising earnings, secure dividend.
Standard Oil of N. J. W	9,100	6.50	10.00	4.00	5.6	80 -63	71	7.1	B1	World's largest petroleum company with important domestic and foreign interests, latter in Middle East and Venezuela chiefly. Higher earnings, possibly larger dividend indicated.
Sun Oil	600	3.16	5.28 A	.98 b	1.9	75½-51	52	9.9	B2	Medium-sized integrated unit with sizable crude reserves, plus stake in ship building. Expansion program portends well sustained earnings, dividends from oil operations.
Texas Company X	4,050	6.32	7.50	3.00	5.5	68⅞-52¼	54	7.2	B1	Second largest crude oil producer, third largest refiner. Has substantial interest in Middle East, South America. Higher earnings, possibly increased dividend indicated.
Texas Gulf Producing	— -	1.18	2.50	.70	3.9	24 -10⅛	18	7.2	C+1	Relatively small crude oil and natural gas producer. Improved crude position through acquisitions. Earnings, dividends should hold well.
Tide Water Associated Oil	471	2.93	3.50	1.05	5.2	25⅝-18	20	5.7	B2	Aggressive development program is adding to reserves but high exploratory costs militate against further substantial earnings gain. Dividend should continue unchanged.
Union Oil of Calif.	410	1.90	3.50	1.00	4.8	27 -20	23	6.6	B1	Complete oil unit, second largest on Pacific Coast, with stake in natural gas. Steadily improving crude position enhances earnings outlook. Dividend appears secure.

A—Actual earnings.
a—Plus 2% stock.
b—Adjusted.
*—Including foreign reserves.

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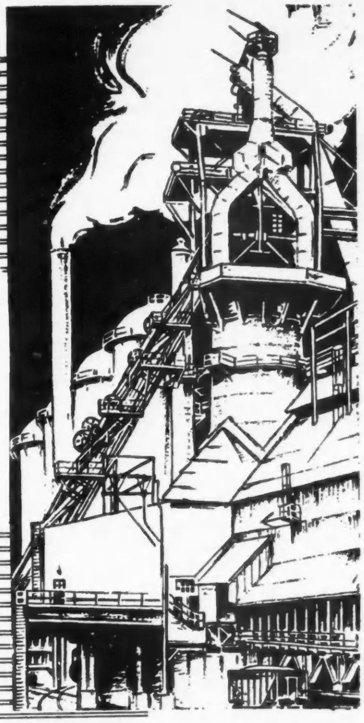
Re-appraisal of THE STEEL Industry



By WARREN BEECHER

Although 1947 was a banner year for the giant steel industry, it is likely that 1948 may prove equally satisfactory. At the start of the current year, demand for almost every conceivable kind of steel product was far from satisfied, indeed trending stronger if anything, with convincing evidence that supplies will remain tight for many months to come.

As the industry's over-all capacity was slightly lifted last year, and through 1948 and 1949 will continue to expand, increased unit sales at firm prices could theoretically tend to hold profits at the record levels generally achieved in 1947, or even raise them. As always happens, however, such optimism has to be tempered by an array of handicaps to potential earnings progress. Some of these difficulties are beyond the control of the industry or of individual managements; others must be surmounted by application of wise company policies if profit figures are to match or exceed last year's.

Last Year's Record

During 1947, production of steel ingots amounted to 84.8 million tons, or 92.9% of rated capacity. More significant is the fact that new expansion of facilities accounted for about 2 million tons of output and another 2 million tons for the same reason may swell totals for 1948, that is unless shortage of scrap proves unduly restrictive. During the final quarter of 1947, the percentage of capacity utilized climbed to 96.4%, but in January of the current year dipped to 93.5% temporarily. At that, in terms of tonnage output during January, the showing was approximately 7.4 million tons of ingots and steel for castings, an annual rate of 88.8 million tons and above any month last year except October. As blast furnace capacity to produce pig iron is expected to be increased by 2.9 million tons during 1948, by the year-end at least, ingot capacity may approach a goal of close to 94 million tons in due course. In theory, too, a production rate of 100% would be possible, if shortages of scrap, coke, railway cars and other essentials could be overcome and no work interruptions occur.

In viewing potentials for 1948, it seems very unlikely that scrap supplies will prove adequate to permit all-out production activities, or even to fully utilize new facilities on which the industry spent $496 million last year, not to mention $565 million outlays planned for the current year. At least 3 million tons more of ingots could have been produced last year if scrap had been more plentiful. The shortage is blamed upon excessive exports during the 1930's, heavy shipments during the war of finished steel items to foreign shores, and above average consumption of scrap for military production prior to VJ Day. Current scrap accumulation simply falls short of the desired mark. This picture is partially brightened, though, by reports that Bethlehem Steel has contracted to buy one million tons of scrap from China, and by the fact that increased production of pig iron should tend to loosen the bottleneck.

Steel Shortage Continues

Granted that basic steel requirements are better met in the current year, trends are developing in the demand for finished steel items that look as if they might cause trouble in more than one industry consuming this major metal material in various forms. As no let-up in demand appears in sight from a long string of steel consuming industries, producers have been forced to prolong policies as to allocations, and in recent weeks even to cut down on amounts previously allotted to customers from month to month. As the postwar boom got well underway last year, significant shifts in the amount of steel used by various industries occurred, though had their requirements been better met, the showing might have been different. Of total steel production in 1947, machinery and metal working trades received 18.8%, the automotive industry 16.3%, construction firms 16%, railroads 9.6%, the container

industry 8.9% and oil and gas producers 5.9%, to mention a few. Additionally 7.3% of domestic steel production last year went overseas.

Scanning the above list, it seems apparent that demand from every one of these sources will strain the productive capacity of the steel industry during all of 1948. The automotive industry hopes to push out 5 million new passenger cars; builders anticipate outlays of almost $20 billion for new construction and repairs; the railroads plan to spend lavish sums for new equipment; makers of metal containers are predicting record output; and the petroleum and natural gas industry is in a breakneck race to spend several billion dollars on expansion during the next few years.

Strong Demand Potentials

Farm and electrical equipment industries, too, will be heavy buyers of steel, while the Marshall Plan is certain to call for substantial quantities in one form or another. All of which adds up to a well sustained sellers' market for the steel industry, and recent signs indicate that it intends to ride rather high as long as it can. That the steel producers foresee prolonged prosperity is shown by their willingness to invest close to $2 billion in additional facilities in order to meet peak demand, although in what might be termed normal periods a substantial overcapacity would eventuate, if history is any guide.

Bottlenecks are currently most serious in sheets, strips and tubing. Increased progress by manufacturers of automobiles, refrigerators, radios, farm equipment and railroad cars will hinge entirely on the receipt of larger supplies of steel sheets and strip, currently scant. Construction of facilities to produce 3 million additional tons of these products, however, is proceeding apace and by mid-year some of them should be in operation. Manufacturers of both welded and cast iron pipe have expansion plans under way, but not on a sufficient scale to raise hopes of fully meeting demand until about three years have elapsed. The oil and natural gas industries are scouring markets for more than 20,000 miles of pressure pipe alone, aside from requirements in connection with record breaking drilling activities plus the needs of utilities and municipalities for cast iron pipe. In the last issue of our Magazine, we presented the outlook for makers of pipe in considerable detail, and refer our readers to that article.

Earnings Prospects

As for the profit outlook, it must be granted that if 1948 results turn out as well as last year's, shareholders will have ample grounds for contentment. We append a table presenting statistics as to relative net earnings of 26 important companies in the industry for 1946 and 1947, along with dividends paid last year, their price earnings ratios, price range and brief comments on the current status of the individual concerns. A glance at this table will reveal the broad and sharp upturn in net earnings that characterized 1947, applicable to most companies on the list, though producers of stainless steel fared less well. The $11.66 per share reported by U. S. Steel established its highest level since 1929, and many other companies were equally fortunate in comparison with former earnings.

In weighing the pros and cons of last year's operational results, it is important to realize that work interruptions were a minor factor, but that a negotiated boost in wages pushed operating costs up during the last half of the year. Freight rates and costs of coal, coke and ores advanced during the year also. Hence operating margins tended to narrow despite increased output and the beneficial effect of upward pricing policies all along the line. An average lift of about 10% in the price of practically all major steel items in the middle of 1947 just about compensated for the earlier rise in coal costs and the second advance in wage scales. Since then prices for pig iron were upped twice for a total of from $6 to $8 per ton, the latest rise occurring in recent weeks, while scrap prices soared from $29.50 last May to as high as $42 per ton only three months later. Freight rates also climbed substantially during the latter part of 1947. It can be assumed, accordingly, that a larger proportion of the industry's sales dollar went to net profits during the first quarter of 1947 than in the following quarters, though increasing volume helped to swell total net earnings for the year.

The Wage Factor

Wages have always been an important factor in calculating production costs of the steel industry; they pushed up the average cost of finished steel from $27.35 per ton to $30.19 during 1947. Now the CIO Steel Workers Union are demanding a substantial third round wage advance on the plea of high living costs. According to the contract now in force, no strikes will be permitted until May 1949, but that does not preclude the reopening of discussion over wages. Last year the average hourly wage rate was boosted from $1.38 to $1.56, a gain of 13%. According to announcement by several leaders in the steel industry, they will emphatically resist any further upping of wages during the current year, especially in view of their former liberality when the contract now in force was signed last year. Be that as it may, many observers concur that to preserve labor peace, some compromise will be agreed upon within a few months, although in the process steel costs once more would be raised.

Higher Prices

Meanwhile the recent action taken by all domestic producers of steel to raise the price of semi-finished products by approximately $5 per ton has aroused widespread repercussions. Steel of this character includes forging blooms, billets and slabs, the basic forms used to manufacture a wide range of industrial essentials, such as sheets for the automotive and refrigerator industries as well as innumerable small appliances. Inasmuch as early in the current year the prices of wire nails, pipe, tie plates, staples, splices, galvanized sheets and hot rolled sheets were substantially lifted, it looks as if practically all prices for finished steel products may experience another upward swing in the inflationary spiral. The impact of the new upturn in prices for semi-finished items hits the smaller and non-integrated steel producers with unusual severity, and fabricators are equally concerned over the matter. Hardly had the new price (*Please turn to page* 668)

Statistical Data on Leading Steel and Iron Companies

	—Net Per Share— 1946	1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
Acme Steel	$4.54	$7.74	$4.25	8.8%	60 -43½	$48	6.2	B2	Specializes in production of hot and cold strip steels. 60% expansion in facilities in progress. Outlook good for continued high earnings. No change in dividend likely.
Allegheny Ludlum Steel	5.12	4.66	2.00	7.7	48½-25⅝	26	5.6	B2	Rather spotty demand for stainless steel and rising costs partially restrict earnings, but current dividend rate seems amply covered.
American Rolling Mill X	5.36	7.44	2.00	7.7	37½-24⅝	26	3.6	B2	Exceptional demand for steel sheets promises to hold sales and profits at satisfactory levels, aided by enlarged capacity. Stable dividend indicated.
Bethlehem Steel X	3.93	4.98	2.00	6.3	35 -30½	32	6.5	B2	Substantial backlog for steel, fabricated products and shipbuilding enhances 1948 prospects. Dividend well backed by earnings.
Bliss & Laughlin	1.91	3.28	1.75	10.6	18¾-14	15	4.6	C+2	Production of cold drawn bars a specialty. Strong demand brightens current year's potentials. Conservative dividend policies should continue.
Byers, A. M.	def.88	4.92	.50	2.9	22¼-13⅜	17	3.5	C+2	Largest producer of wrought iron pipe, orders for which are of substantial proportions. Erratic earnings record suggests modest dividend policies.
Carpenter Steel	4.53	6.38 a	3.00	9.1	50½-38	33	5.2	B3	Long established producer of high alloy and high speed tool steels, now in fairly ample supply. Though earnings may recede slightly, dividend status secure.
Colorado Fuel & Iron	def.60	3.40 a	1.05	8.1	18 -12	13	3.8	C+2	Increasing demand for steel rails and wire products improve 1948 prospects but no change in 25 cents per share quarterly dividend probable.
Continental Steel	1.89	2.59	1.00	6.6	19 -14⅛	15	5.8	C+2	High level construction activities supporting large sales of nails, staples, roofing and wire products, and at firm prices. Dividend amply earned.
Crucible Steel	def2.37	1.12	Nil	—	37¼-22½	22	19.6	B—1	Leading maker of high alloy and tool steels, along with stainless steel items. Unsatisfactory earnings last year may be improved upon completion of $30 million expansion program. No dividend in sight.
Eastern Stainless Steel	4.08	—*	.25	1.4	51 -14¼	18	—	C2	Pick up in demand for stainless steel during 1948 will be needed to assure profitable operations, but small dividend may be continued.
Follansbee Steel	4.56	8.20 E	2.50	10.4	40⅝-14½	24	2.9	C2	Produces cold rolled carbon sheets and strips as well as other specialties. Retirement of debentures attests to financial strength. Dividend rate appears stable.
Inland Steel W	2.97	6.10	2.50	7.0	42 -33	36	5.9	B2	Second largest steel producer in Chicago district, with sheets comprising about half of output. Prospects bright for continued good earnings in 1948. Year end extra dividend possible.
Interlake Iron	.89	2.50 E	1.20	10.0	15⅛- 9½	12	4.8	C+2	Largest producer of merchant iron, an item likely to continue in strong demand and at firm prices. No change in current dividend rate probable.
Jones & Laughlin Steel	3.79	8.45	2.00	6.7	39 -27⅜	30	3.6	B2	Ranks fourth among steel producers. Outlook enhanced by strong demand and modernized facilities. Chances for increased dividends, though, not promising.
Keystone Steel & Wire	2.78	7.74 a	3.05	8.0	49¼-39	38	4.9	B2	Large farm income bolsters potentials for this specialist in the manufacture of fence, barbed wire and gates. The 50 cents quarterly dividend should continue to be supplemented by 25 cents extra.
National Steel W	9.17	12.03	4.00	4.8	95 -74¾	84	7.0	B2	Increased production of sheets and low overhead may widen profit margins in 1948. Sales and profits should continue high. Dividend safe.
Republic Steel	2.53	5.17	2.00	8.0	30⅞-22⅜	25	4.8	B2	Third largest steel producer, with bright prospects for sales and earnings in current year. No change in dividend distributions likely.
Sharon Steel	4.39	10.89	2.00	6.5	40⅝-24¾	31	2.9	C+2	Strong demand for strip steel likely to expand volume during 1948, due to larger facilities. Higher prices stabilizing profit margins. Dividend rate steady.
Sloss-Sheffield Steel	.54	3.94	1.20	6.7	23 -15	18	4.6	C+2	Ownership of large ore deposits and ample facilities to produce pig iron favor company's outlook. Strong demand and stiff prices assure good earnings. Dividend stability indicated.
Superior Steel	3.50	3.98	1.00	6.2	24¼-13	16	4.0	C+2	Production of strip steel supporting earnings, though over supply of stainless steel a restricting factor. No rise in dividend rate likely.
U. S. Pipe & Foundry X	1.20	6.01	1.60	3.8	46½-35	42	7.0	B1	Dominant producer of cast iron pipe, indirectly well integrated. Current huge demand likely to last for several years. 1948 annual dividend rate recently lifted to $2.80 per share.
U. S. Steel X	7.28	11.66	5.00	7.1	80 -61⅝	70	6.0	B2	All divisions of company likely to operate at full capacity during most of 1948. Firm prices promise to offset higher costs. Stable dividend sure.
Wheeling Steel X	6.25	15.15	2.00	5.1	53⅛-31	39	2.6	B2	Emphasis upon production of light steels assures capacity output and record earnings. Operations will benefit from construction of new coke ovens. Dividend not likely to change.
Woodward Iron	2.25	6.11	1.50	5.0	35 -28	30	4.9	B2	Second largest producer of pig iron, enjoying large sales. Profit margins widened by price boosts when necessary. Possibility of greater dividend liberality.
Youngstown Sheet & Tube X	8.51	13.31	4.00	5.9	83 -53¾	68	5.2	B2	Continued record demand for sheets and tubing enhances earnings potentials for current year. No variation in dividend probable.

E—Estimated.
a—Fiscal year ending June 30.

*—For 9 months ended Sept. 30, def. $0.95 reported.

Photo by Allis-Chalmers

. . . Today's Trends in MACHINERY COMPANIES

By H. F. TRAVIS

Most divisions of the complex machinery industry, heartened by exceptionally good results during 1947 and by an imposing array of backlog orders at the year-end, are viewing near term prospects with optimism. Indeed, even the manufacturers of machine tools whose progress last year lagged behind the rest of the group, have reason to hope for improvement as 1948 unfolds.

Although few of the machinery manufacturers as yet have issued their annual reports for 1947, it is estimated that their volume aggregated around $1.25 billion for the year, up 30% compared with 1946. This only partially clarifies the picture, however, for different segments of the industry fared better or worse in making up the total figures. 15 large manufacturers of industrial machinery probably achieved sales gains of close to 43%, specialty concerns 35%, and a miscellaneous group 26%, while volume of some machine tool makers registered an actual decline.

How They Fared Last Year

As for net earnings last year, it is expected that these generally outstripped the gain in sales percentagewise. It is quite likely that the combined earnings of 29 important concerns in the field will show a rise of around 49%, with those of the better situated companies making industrial machinery climbing above 60% compared with the previous year, with gains for other specialists ranging from 20% to 50%. A few concerns prominent as producers of machine tools, on the other hand, may be forced to report reduced net earnings for last year, or may even end up slightly in the red.

What accounts for the divergent results we have mentioned is partly the different composition of markets available for the numerous segments of this industry, varying demand, competitive positions, operating advantages and handicaps, and partly to divergent company policies. Producers of heavy industrial machinery have enjoyed, and should continue to benefit from, the worldwide race of all manufacturers to win better cost control in production. The break-even points of practically all manufacturing enterprises have been lifted to such a dangerous level that operating losses could quickly develop if boom time activities should slow down, even if volume remained far above prewar experience. To maintain adequate profit margins has now become a top problem with most managements struggling against the inflationary spiral, especially as competition is rapidly tempering enthusiasm over price advances.

Important Demand Factor

Both defensively and aggressively, manufacturers are determined at all odds to strengthen their operations through acquisition of the best designed and most efficient machinery available in world markets. As this involves not only equipment for newly built plants, but large scale replacements of obsolete equipment as well, indications are strong that the record demand for heavy machinery should continue unabated as long as business activity in turn remains dynamic. For the first half of 1948, at least, assurance of this seems well founded.

Only as recent as last September have potential buyers of machinery been able to compare the merits of the most modern machinery and machine tools in the first comprehensive exhibit since Pearl

Position of Leading Machinery Stocks

	—Net Per Share— 1946	1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
American Mach. & Fdry.	$1.05	$1.85 E	$ .80	4.7%	28⅜-16½	$17	9.3	C+3	Backlog indicates need for capacity operations during 1948 in meeting demand for tobacco making and other machinery. Dividend stable.
Babcock & Wilcox X	2.94	10.06	3.50	7.0	61 -37½	50	4.7	C+2	Increasing demand for boilers enhances outlook for 1948. Net earnings amply suffice to support current dividend rate.
Blaw-Knox	2.49	2.23	1.10	7.8	20⅜-12½	14	6.3	C+2	Diversified output of steel products finding ready takers, but margins likely to narrow. No change in dividend policies apparent.
Bliss, E. W. X	3.40	7.75 E	2.00	8.3	35⅛-18½	24	3.1	C+2	Largest producer of presses, with volume gains likely to hold during 1948. Substantial profits assure dividend stability.
Bucyrus Erie X	2.08	3.65 E	1.50	8.8	20⅝-13⅛	17	4.6	C+2	Dominant manufacturer of road machinery, with prospects for long sustained activity. Present dividend rate amply protected.
Buffalo Forge	3.56	6.70 b	4.45	13.2	37⅞-25¼	33	....	C+1	Strong uptrend in sales and profits favors current status. Dividend secure with possibility of year end extra.
Bullard	1.14	def.30	Nil	....	23⅝-14½	16	....	B1	Resumption of dividends indicates improved conditions in machine tool industry, following slump last year.
Caterpillar Tractor X	3.25	5.29	300	5.7	64 -49¼	53	10.0	B2	Leading producer of track-type tractors and diesel engines. Record backlog orders enhance outlook. Earnings amply exceed dividends.
Chicago Pneumatic Tool X	5.01	11.75 E	3.50	12.0	34⅜-20½	29	2.5	C+2	Record sales causing large earnings, with no let up in sight for near term. Liberal dividend policies probable.
Cooper-Bessemer	def.54	7.75 E	.50	2.4	27½-12½	21	2.7	C+2	Sharply higher volume likely to hold during near future, with earnings holding at high levels. Shareholders may receive extras perhaps.
Evans Products	3.29	4.08 c	1.25	7.8	24½-15¼	16	....	C+2	Enjoying record sale of diversified items. Uptrend in earnings and strong finances warranting declaration of occasional extra dividends.
Ex-Cell-O	3.03	5.23	2.60	6.5	50⅜-32⅛	40	7.6	B2	Good cost controls widening profit margins though sales show only modest uptrend. Earnings outlook suggests maintenance of regular dividend.
Fairbanks, Morse X	5.14	7.05	2.50	5.8	60 -42½	43	6.1	B—2	Impressive gain in sales bringing record earnings. Entry into diesel locomotive field may expand volume. 1948 dividends not likely to change.
Food Machinery X	3.21	4.50 E	2.00	5.9	39½-33½	34	7.5	A2	Leading supplier of equipment for food packers. Prospect of continued large earnings strengthens dividend potentials, but no increased rate expected.
Foster Wheeler	.10	1.50 E	1.00	4.0	32½-19¼	25	16.6	C+1	Heavy demand for oil refinery equipment increasing backlog. Satisfactory earnings likely and dividends should remain at 25 cents per share quarterly.
Greenfield Tap & Die X	4.70	3.35 E	1.20	8.0	21½-14½	15	4.5	C+2	Strong trade position in cutting tools and gauges improves potentials for 1948 sales. 30 cents per share quarterly dividend seems safe.
Ingersoll Rand W	9.28	16.00 E	9.00	7.5	136½-107	120	7.5	A2	Another year of large earnings probable for this leading supplier of capital goods to heavy industries. Fair prospects for dividend extras.
Joy Manufacturing X	3.29	8.52	2.10	6.0	40⅞-25½	35	4.1	C+2	Important manufacturer of mining machinery, with exceptionally bright outlook. Recently increased dividend rate should easily continue.
Link Belt X	5.50	9.00 E	3.00	5.2	66 -47	58	6.5	B2	Volume potentials fortified by heavy demand for machinery, chains, transmission and conveying equipment. Quarterly dividend recently supplemented by $1 extra.
Mesta Machine	2.56	3.03	2.50	6.7	47½-35⅞	37	12.4	C+2	A leading manufacturer of heavy machinery for steel mills, enjoying a sharp uptrend in sales last year. Dividend payments well assured.
Monarch Machine Tool	3.23	3.46	2.00	8.0	32 -23½	25	7.2	C+2	Production of automatic metal turning machines creating expansion in volume. No indication of any variation in dividend rate.
National Acme	5.23	4.90 E	2.50	10.4	30 -21	24	4.9	C+2	Sizable backlog orders for automatic machine tools should sustain earnings at high level, at least for six months. 50 cents quarterly dividend secure.
Niles-Bement-Pond	def.06	....	.60	6.0	15¾- 9⅝	10	....	C+1	Produces broad line of machine tools and precision instruments. 1948 prospects brightened by near termination of Government surplus sales. Small dividend probably will be stable.
Starrett, L. S.	4.04	7.78 A	3.00	8.1	47 -37	37	4.7	C+2	Heavy domestic and foreign demand for precision tools likely to assure large sales and earnings. Strong finances warrant liberal dividends.
United Engineering & Fdry.	1.46	1.69 d	2.00	5.3	43½-33	38	....	B1	Important producer of made to order heavy rolling mills and other equipment for metal industries. Sales and profits trending fast upward. Dividend well assured.
U. S. Hoffman Machinery	7.31	3.35 E	.75	5.8	33½-12¼	13	3.9	C+3	Specializes in production of cleaning and garment pressing equipment, laundry machinery, etc. Probable decline in demand could bring lower earnings.
Van Norman Co.	2.97	2.60	1.40	10.8	18⅞-12⅝	13	5.0	B2	Produces milling machines and cutting tools. Slight probable dip in 1947 earnings may be corrected in 1948. Modest dividend probably safe.
Waukesha Motor	1.53	4.54 B	1.25	6.9	23⅝-17⅛	18	4.0	B—1	A leading producer of heavy duty diesel and gasoline engines, with strongly entrenched trade position. Record earnings suggest declaration of extras this year.
Worthington Pump & Mach. X	9.64	17.59	2.00 a	3.6 a	68½-48¼	55	3.1	B2	Record demand from utilities, oil, construction and mining industries creating peak sales and profits. Conservative 50 cents quarterly dividend likely to be improved by extras.

A—Actual earnings for fiscal year ended June 30.
a—Plus 10% in stock.
b—9 months ended August 31.
B—Actual earnings for fiscal year ended July 31.
c—9 months ended Sept. 30.
d—6 months ended June 30.

Harbor. An on-the-spot inspection of more than 2,000 different items, made possible by the National Machine Tool Builders Association in Chicago, attracted over 100,000 key men from industries located in every State in the Union and in 30 foreign countries. This enterprise proved inspirational to the visitors, and promises to stimulate order placements impressively.

Technological Progress

To realize even partially how the machinery industry has boosted its sales potentials by the introduction of more efficient equipment, our readers should know that in the opinion of leading engineers, more technological progress has been achieved in the past five years than in any previous 20-year period. General Electric's affiliate, Hotpoint, Inc., for example, is spending $285,000 for a giant press to stamp out steel doors for electric stoves. Where a dozen men and six presses formerly were needed to do the job, only two men are required to accomplish the same end. Baldwin Locomotive has made a new 300-ton press for one of its customers that saves fully 30 operations at one clip. Midland Steel Products is buying three presses with price tags averaging $250,000, to double the manufacturing speed of heavy truck frames. One of the big steel companies has just started to operate a huge new rolling mill, capable of turning out sheets at the rate of 70 miles per hour.

Getting down to smaller equipment, there are new lathes that automatically load and unload themselves, and multiple machines that by the touch of a button perform half a dozen operations one after another, cutting work time impressively. Where grinding formerly was required to finish very hard metal, a new machine now does precise chipping 20 times as fast. Nor is speed alone the only sales enticement with some of these modernized devices, for many of them save floor space by their compact design. Additionally, product quality has been substantially enhanced by uniformity of precision, though the speed of output has been greatly increased and a marked decrease in spoilage has resulted.

Sales Appeal

All said, it can be appreciated that where a manufacturer can cut operating costs by as much as 60%, reduce the number of operations by two thirds, substantial outlays for up to date equipment can only be regarded as wise, and perhaps as a life saver for his business in the long run. Multiply this consideration on a worldwide basis and the outlook for the machinery industry is decidely enhanced. A general business recession would undoubtedly check its progress temporarily, but under the spur of vanishing profit margins it should take most potential customers not very long to accelerate their acquisition of cost-saving machinery. Unfortunately many of them tend to defer sensible action during depression periods, and in the past the business of the machinery manufacturers has slumped badly at such times. Whether this disadvantage will again appear in poor times remains to be seen. Users of machinery may have learned a hard lesson from past experience, but investors in machinery shares should not take this for granted.

Early in our discussion we mentioned that manufacturers of machine tools generally did not share to an equal extent in the wave of expanding prosperity characteristic of the industry as a whole. Concerns in this group had a prolonged struggle to readjust their operations when volume fell from a wartime peak of $1.32 billion to around $300 million during 1947, the latter about 8% below 1946, though well above the average of around $200 million in good prewar years. What pinched hardest last year was the much talked about flood of surplus Government tools pressing upon the markets at low prices. One large manufacturer of machine tools figured that competition from this source cost him more than $1 million in sales that he normally would have landed.

Elimination of Surplus Machinery

At one time nearly 700,000 of these surplus tools were offered at about one third of the price asked for new ones, and though many of them had been used or were rather obsolete, they found takers on a wide scale. Luckily, the number left for sale at end of the year was estimated at only about 120,000 and of these 40,000 have been earmarked for acquisition by the Armed services for permanent stockpiling. Hence it looks that with elimination of this stiff competition, 1948 sales of the concerns making new tools will trend upward. In this event their net earnings also should develop considerable improvement.

Another factor that should help to expand earnings of the machine tool group in the current year is a considerable reduction in development expenses. All during last year, concerns in this group were heavily engaged in the initial work required to design their new models to adjust their schedules for mass production. Promotional outlays to introduce their modernized equipment also ran into unusually large amounts. As a result of the Chicago Show, it should be possible to cut selling expenses somewhat, though competition will be exceedingly keen. Now that production can proceed smoothly and high costs of cataloguing are no longer required, profit margins could widen moderately during 1948. It is true that unfilled orders in this segment of the industry declined to about $110 million at the end of last year, compared with $164 million a year earlier, but improved efficiency of the new designs promises to stimulate orders substantially from now on.

Potentials in Mining Machinery

A special branch of the machinery industry that is making record breaking sales with no indications of a let up for quite an extended period, is the group concentrating upon production of mining machinery. Concerns such as Joy Manufacturing Company are flooded with orders for the most up-to-date types of mechanized equipment. Mining company demand for cost-saving devices has been substantially increased as higher wages have tended to threaten profit margins. This of course is particularly true in the coal fields where thousands of concerns, large and small, are avid in acquiring automatic equipment of every kind in order to maintain operations on a profitable basis as long as the tremendous demand for coal continues. In like manner, miners of iron ore, (*Please turn to page* 668)

Earnings Prospects . . . for the MOTORS

By
GEORGE W. MATHIS

With the setting of peacetime sales records in 1947, the automobile industry is a step nearer to the point when once more supply-demand factors will come into play. The timing of this event is one of the more difficult tasks of business prognostication, but at any rate, the immediate outlook for the industry is bright. Although many new profit peaks were established by individual companies last year, the sustained large demand and the improvement in supplies indicate that further gains may be recorded by passenger car builders this year. Yet the underlying factors that prevail in this industry are exerting a steadily increasing pressure.

With the solution of production problems, emphasis is again veering towards selling particularly in the medium and higher price fields. The price factor is of primary importance: Sharp advances have cut into potential markets for new cars and any further price increases will intensify this trend.

Reflecting the abnormally high consumer incomes, the tendency in recent years has been toward wider markets for medium-priced and higher-priced cars, in contrast with the preponderance of sales in the lowest price bracket of former years. Once current demands have been met, production and sales emphasis may be expected to revert again to low-priced models and much sooner so if a sizable business recession sets in. Should this materialize, the automobile industry cannot avoid its effects, even though all pent up demands have not been satisfied. The deflationary influences of wide commodity price declines have already induced an attitude of caution on the part of the public. If this trend should deepen, it is ultimately bound to be reflected in production schedules. While current automobile prices do not seem unduly high in relation to prices of other goods, deflationary trends will leave their mark on buyers' attitudes. Many prospective car buyers may then be inclined to postpone contemplated purchases. Such developments are not looked for within the next few months; but they must be borne in mind as events that could develop rapidly under continued deflation.

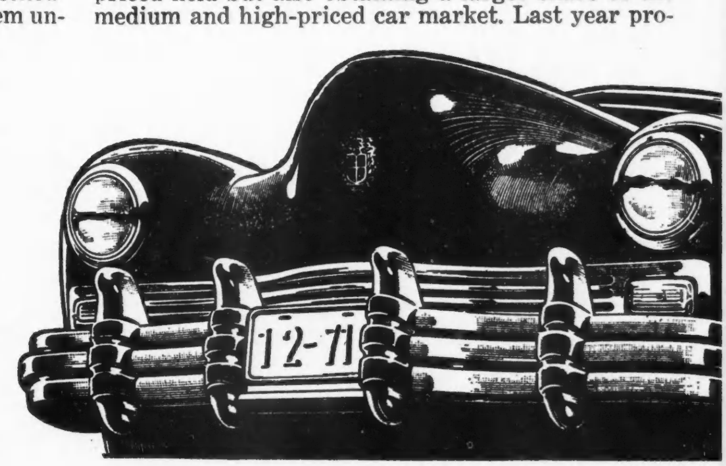
Impending Model Changes

That the industry is well aware of this possibility is indicated by current plans for the introduction of new models. This invariably serves as a stimulant to sales. Studebaker was the first of the independents to produce a completely restyled model. Kaiser-Frazer capitalized on its initial bow as a newcomer by introducing post-war changes in appearance and construction. Last year Packard and Hudson restyled; while this year General Motors got the jump on its big competitors by introducing new models in Cadillacs and Oldsmobiles. Later this year new models of the other General Motors cars are expected to make their appearance. Ford is retooling to produce an entirely new line of Lincolns and Mercurys; its new Ford should be out by early summer. While Chrysler will continue to produce present models for the greater part of this year, plans call for an entirely new line of cars to be on the assembly line in 1949.

"Big Three" Competition

The aggresive effort of Ford to regain its former leadership will bear watching. Although it is generally known that the Ford Motor Company, relying on its past achievements, lost out competitively to General Motors and Chrysler during the Thirtees, the progress of the latter two was made relatively more at the expense of the small companies. Efforts of Ford to recapture leadership, in the face of continued aggressive policies on the part of General Motors and Chrysler, will lead to very keen competition—far more than in the preceeding decade. It may hurt the independent producers to a varying degree.

Ford's ambitious plans envision not only a recapture of its formerly dominant position in the low-priced field but also obtaining a larger share of the medium and high-priced car market. Last year pro-



duction of this class of cars amounted to more than 52% of total passenger cars, compared with only 48% in 1941. Ford's share of this was only 8.3%, a figure which undoubtedly the management will want to improve. With representation in every price field for the first time, Ford is expected to provide stiff competition, although unquestionably not enough to dislocate the basic position in the industry of such concerns as General Motors and Chrysler.

An analysis of the all-important low-priced field presents interesting aspects. Chevrolet, Ford, and Plymouth dropped from accounting for 52% of the total in 1941 to 46% in 1947. During this period, Ford gained from about 30% to 36%; Chevrolet declined from about 47% (*Please turn to page* 670)

Statistical Position of Automobile and Truck Manufacturers

	Working Capital* ($ Million)	—Net Per Share— 1946	Est. 1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
Autocar	$10.0	$3.54	$3.96 A	$2.00	12.4%	29⅝-15½	$16	4.1	C+3	Independent producer of heavy trucks. Competition very keen. Earnings may decline moderately this year but should hold above prewar years for some time. 50c quarterly dividend may continue.
Chrysler X	214.0	3.09	7.50	2.87 a	5.2	66⅞-52⅜	55	7.3	B1	Ranks second in production of cars; third in production of trucks. Has shown good earning power. New peak earnings indicated for last year. Outlook favorable. Dividend increased to $1 quarterly.
Diamond T	8.5	2.29	4.50	1.75	10.2	24⅞-16	17	3.8	C+3	Produces heavy duty and lighter trucks. Faces severe competition from larger, well-integrated concerns. Longer term prospects unimpressive. Additional extras to 25c quartely dividend possible.
Federal Motor Truck	4.5	1.50	3.00	0.90	10.0	14½- 9⅛	9	3.0	B3	Manufactures trucks in a variety of models. New management has made good improvement. Near term prospects favorable; longer term clouded. 10c quarterly dividend will likely receive other extras.
Fruehauf Trailer X	30.1	4.30	3.50	1.00	5.3	39 -18	19	5.4	B2	Largest manufacturer of truck-trailers. Operating efficiency and uptrend in highway freight volume impart speculative growth possibilities to stock. 25c quarterly dividend appears secure.
General Motors X	846.9	1.76	6.70	3.00	5.7	65⅞-51⅛	53	7.9	B1	Well diversified producer of cars, trucks, diesels, refrigerators, etc. Prospects bright. Good quality stock pays liberal dividends. Current rate of 75c quarterly may be raised.
Hudson Motor Car	26.2	1.51	3.10	.40	2.5	21½-12½	16	5.2	C1	Introduction of advanced models brightens medium-term outlook. Sharp gain in earnings indicated this year. 10c quarterly dividend should continue; other disbursements possible.
Kaiser-Frazer	26.6	def4.82	4.11 P	Nil	......	18¼- 5	9	2.2	C2	Has made good progress; ranks fourth largest automobile producer. Ability to maintain position still to be demonstrated. Large capital needs will likely postpone dividend payments.
Mack Trucks W	34.4	def1.48	10.00	5.50	12.0	60 -41¾	46	4.6	B2	Leading producer of heavy-duty trucks. Earnings probably reached new peak last year. Well sustained opertions indicated. Quarterly dividends have steadily increased.
Nash-Kelvinator	37.9	.59	4.17 A	1.10	6.9	19⅝-14	16	3.8	C+1	Produces medium-priced automobiles and electric refrigeration equipment. Good prospects in sight. Cash position strong. Dividend recently increased to 35c quarterly.
Packard Motor	31.9	.32	def.01 b	.15	3.7	7¾- 4⅛	4	......	C+1	Sharp improvement in operations expected. Prospects good. But large capitalization moderates per share earnings. Recent 15c dividend matched last year's total payments. Further disbursements likely.
Reo Motors	10.6	7.37	9.50	3.00	12.4	33⅛-24	24	2.5	C+3	Produces light and heavy-duty trucks, transit coaches, and school busses. Good operating profits should be well maintained. Conservative 62½c quarterly dividend may receive further year-end extra.
Studebaker	36.4	.40	3.50	.50	2.9	25⅛-16	17	4.9	C+1	Turns out commercial vehicles in addition to passenger cars. Good earnings gain expected this year. Large capital needs indicate conservtive dividend payments.
Twin Coach	5.0	def3.57	4.50	Nil	......	17¼- 9⅞	10	2.2	B—3	Produces transit motor coaches and busses. Prospects favorable. While peak appears passed, earnings should continue well above prewar years. Dividend payments may be resumed.
White Motor	17.0	2.87	7.25	1.50	7.5	29⅞-19	20	2.7	B2	Leading manufacturer of industrial and commercial vehicles of various types. High level of operations indicated. Stock or other financing may be necessary. Further extras to 25c quarterly dividend possible.
Willys-Overland	21.9	.08	.99 A	Nil	......	13½- 6⅞	7	7.1	C+1	Produces civilian jeeps, station wagons, and trucks. Large deferred demands point to good earnings gain. Large capital needs may defer initiation of dividend payments.

P—Preliminary.
A—Actual.
a—Adjusted.

*—Latest Indicated.
b—For nine months ended Sept. 30.

Divergent Outlook

FOR

MOTOR ACCESSORIES

By PHILLIP DOBBS

Widespread confidence in the favorable prospects for automotive parts manufacturers appears warranted for 1948, after weighing all the factors involved. Progress in this industry is so closely allied with that of the giant producers of passenger cars and trucks that the firmly based bright outlook for the latter gilds the potentials of its suppliers. But trends are shaping up that to some degree may bring divergent results to individual concerns, while uncertainties that may affect every form of industry cannot be overlooked.

For the parts group as a whole, the peace boom that got well under way last year brought high sales and often peak profits, with aggregate volume forming a substantial base upon which to sustain net earnings. Indeed, 25 leading companies experienced an average rise in sales of 58% over 1946, for totals well in excess of any prewar records. What stimulated business in this field so impressively was in part the production of more than 5 million passenger cars and commercial vehicles by United States and Canadian manufacturers, requiring a flood of original new equipment.

Then, too, the 32 million old cars on the road, with an average age of 8 years, created an abnormally high demand for replacement parts. Though sales of these latter items aggregated about $2.3 billion, volume tended to slip off by some 15% towards the end of the year, as demand accumulated during war years approached a satisfaction point. Hence peak demand for replacements may have passed into history for a while. Despite this adverse factor, though, the increased demand for original parts more than compensated by raising the level of over-all sales.

As for 1947 net earnings, the tense struggle of the leading automobile manufacturers to secure adequate supplies and parts of every kind fortified the price policies of the parts makers. Materials costs advanced steadily during the year and practically all concerns in the field were forced to raise wages at various intervals. Advantages from expanding mass production, modernized machinery and improved coordination of operations, along with price adjustments, however, tended to offset the impact of rising costs. Net earnings generally were extremely satisfactory last year, in many instances after liberal allowance for contingency reserves of one kind or another.

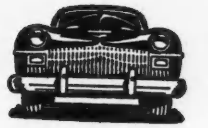
This Year's Outlook

Turning to 1948, the well-sustained high level of national income plus an expanding flow of steel and other raw materials has caused the makers of cars and trucks to lift their sights in estimating output in the current year. We refer our readers to another article in this issue of the Magazine for a detailed appraisal of the outlook for the automobile manufacturers; since this reveals optimism over the prospect for larger production, similar advantages should accrue to the suppliers of original equipment.

Statistical Data on Leading Automotive Parts and Accessories Companies

	Net Working Capital* ($ Million)	—Net Per Share— 1946	Est. 1947	Div. 1947	Div. Yield	Price Range 1947-48	Recent Price	Price-Earnings Ratio	Invest-ment Rating	COMMENTS
American Bosch	$7.0	$ .55	$1.03 d	$.75	7.5%	17⅜- 9	$10	......	C+2	Substantial uptrend in volume, but only moderate profits per share probable. Rather liberal portion of earnings paid in dividends.
Bendix Aviation	63.1	.37	7.58 A	2.00	7.4	39½-26	27	3.6	B3	Sharp rise in earnings partly caused by transfer to income account of unused reserves. Outlook good and current dividend rate secure.
Bohn Aluminum & Brass	12.1	4.66	2.65 b	2.00	6.5	59 -29½	31	......	B3	Reduced demand adversely affecting earnings to some extent, but probably not endangering lowered dividend rate.
Borg Warner X	66.2	3.66	8.50	2.05	4.6	55 -37⅝	45	5.3	B1	Broad demand for diversified output establishing peak earnings. 1948 prospects bright. Dividend amply protected by net earnings.
Bower Roller Bearing X	4.3	3.23	5.75	2.00	5.9	39½-32	34	5.9	B1	Chances for earnings stability enhanced by good long term record and favorable outlook for this specialist. Dividend improvement possible.
Briggs Mfg. X	16.9	2.25	3.50	2.00	6.9	40½-28⅛	29	8.3	C+1	Increasing steel supplies should hold sales at high level, both for automotive and plumbing items. No change in dividend rate probable.
Briggs & Stratton	3.4	3.15	4.50	2.50	9.3	31⅝-23⅛	27	6.0	B—2	Specialist in production of 4 cycle and small hp engines. Conservative dividend likely to be supplemented by year end extra in 1948 as in previous year.
Budd Company	34.9	def1.46	1.65	.10	1.2	14⅞- 8	8	4.8	C1	Substantial orders for auto bodies and railway cars building up volume and net profits. Modest dividend may be improved during current year.
Campbell, Wyant & Cannon X	2.9	2.98	4.35	2.50	9.6	34½-21½	26	6.0	C+2	Strongly entrenched as producer of alloy castings for automotive industry. 1948 outlook favors continued satisfactory earnings. Dividend seems entirely safe.
Clark Equipment X	13.6	1.94	7.00	2.75 a	9.5	34½-23	29	4.1	B—1	Profits are expected to continue at peak levels during current year, due to heavy demand for company's specialties. Stable dividend indicated.
Cleveland Graphite Bronze	9.3	3.64	4.75	2.50 a	8.9	35⅞-27⅛	28	5.9	B—2	Broad markets for bearings lend promise to 1948 prospects. Good past dividend record adds appeal to shares. Dividend variation unlikely.
Collins & Aikman	13.9	6.36	.31 c	1.50	7.5	46 -20¼	20	......	B—1	Heavy forward buying by customers earlier in 1947 reduced later sales and earnings, but trend may reverse in current year. Dividend potentials clouded.
Dana Corp. X	17.7	.44	5.23 A	.70 a	3.3	26¾-19½	21	4.0	B1	Addition of new products along with expanded facilities enhances outlook for well sustained volume and profits. Capital needs may preclude advance in dividend rate.
Eaton Mfg. X	2.8	4.02	8.25	5.00	10.6	57¾-42¾	47	5.7	B1	Strong trade position and enlarged capacity strengthen near term potentials. Record earnings may bring extra dividends or increase in rate.
Electric Auto Lite W	37.4	2.72	7.17 A	3.00	6.7	65¾-43	45	6.3	B1	Established maker of electric equipment for automobiles as original and replacement items. 1948 earnings may equal those of last year, but dividend policies conservative.
Electric Storage Battery W	27.1	3.62	6.00	3.00	6.0	57⅝-47	50	8.3	B1	Prospect of continued strong demand for original and replacement items creates warranted optimism. Dividend rise possible.
Hayes Mfg.	4.1	.24	1.57 A	Nil	......	9⅝- 4⅝	7	4.5	C1	Sizable backlog enhances prospects for first half year. Peak volume widens margins. Resumption of dividends indicates management confidence.
Houdaille-Hershey	11.5	1.35	4.00	1.00	7.1	19⅞-13¼	14	3.5	C+1	Leading producer of bumpers, shock absorbers, etc., with favorable outlook for 1948. Conservative dividend should continue.
Kelsey-Hays "B"	9.2	def1.52	5.36 A	.75	4.2	21⅝-13¾	18	3.4	C+1	Largest independent wheel manufacturer, enjoying high sales and ample profits. Fair prospect for increased dividend liberality.
Midland Steel Products	11.6	2.90	10.00	4.00	10.8	45¼-29⅞	37	3.7	C+1	Sales and earnings at record levels and should be well sustained for some time. Potentials for extra dividends promising.
Motor Products	6.1	1.21	4.78 A	1.50	6.2	27¼-17	24	5.0	C+1	Diversified output finding ready takers. Gain in earnings possible during 1948, enhancing chances for larger dividend.
Motor Wheel	9.7	1.47	2.75	1.20	6.0	27¾-19¾	20	7.3	C+1	With indicated large sales to auto manufacturers and others during current year, dividends should at least match those of 1947.
Murray Corp. of America	11.6	def.77	2.85 A	1.00	7.7	17 - 9⅞	13	4.5	C+1	Improved steel supplies favor enlarged output of stamped bodies. Earnings should continue to amply assure dividend stability.
Raybestos-Manhattan	14.3	2.63	3.15	2.00	6.9	41 -28¾	29	9.2	B2	Strong finances and diversified output lend confidence to well sustained operations in current year. No change in dividend likely.
Reynolds Spring	1.4	def3.25	1.91 A	Nil	......	16¾- 7⅞	8	4.2	C+1	Record sales and improved conditions should bring favorable results this year. Resumption of dividends a possibility.

Labor troubles in key industries, allocations of materials, and heightened competition, though, could create unpredictable difficulties, and caution always points to the possibility of major economic readjustments on the road ahead.



Granted smooth sailing during 1948, it is not unreasonable to hope that the hundreds of manufacturers producing original equipment will have all the business they can handle to permit construction of over 3.5 million passenger cars and some 1.5 million trucks in the current year, the goal set by the car manufacturers.

The apparent slackening of demand for replacement parts should not arouse pessimism over the earnings prospects of parts manufacturers. The enormous number of powered vehicles over-age by prewar standards, and the slim prospect that demand for new cars can be satisfied any time soon, combine to enhance potentials for high level activity by the makers of parts. Chances seem to be very good that volume dips will strike a floor far above any prewar experience and continue around such levels indefinitely. Further supporting this assumption is the fact that car owners perforce have learned that through adequate renewal of parts, their automobiles can give excellent service far longer than was commonly realized. As an example of this trend, some of the large car manufacturers such as General Motors and Chrysler during the past two years have sold hundreds of thousands of completely new engines for installation in old cars, thus decidedly prolonging their usefulness at a cost of only a few hundred dollars. Such policies may tend to swell the demand for other replacement parts enough to lift over-all volume of the parts industry above 1947.

Why Demand Declined

Other factors accounting for the decline in replacement demand may prove to be transient. For one thing, the abnormally severe winter has tended to restrict driving all over the country. This kept many million cars locked in their garages. Also, gradual top-heavy accumulation of used cars in the hands of second-hand dealers put many vehicles at least temporarily out of operation. Besides which the recent steps taken by the Canadian Government to restrict imports of auto parts to 80% of the 1947 volume tends to restrict sales. On the other hand, now that spring weather is close at hand and the usual seasonal uptrend in used car sales gets under way, volume of the parts suppliers should be bolstered or at least experience a greater degree of stability.

Increased competition among suppliers of replacement parts naturally will create a major test of selling ability on the part of individual concerns. While steel shortages still preclude all-out production of many kinds of parts, and numerous other items such as batteries are still in scant supply, the output of such products as glass, upholstery and brake linings has reached a point where sales forces are taking off their coats to get orders from jobbers,dealers and repair stations.

What counts in these expanding efforts is that the heaviest competition in this field originates from the big automobile manufacturers themselves. General Motors, for instance, is a far larger producer of parts than any of its outside suppliers, normally selling its dealers about 25% of total parts produced. Right now GM is busily at work attempting to push the percentage up to 30%, it is said. It can be taken for granted that all of the large concerns manufacturing cars are pursuing similarly constructive policies.

Quite aside from the cyclical influences that affect periodic operations of automobile parts and accessory concerns, including both makers of original equipment and replacements, their contractural agreements every now and then expose this and that company to the danger of major variations in orders from year to year .Some of the important specialists, to be sure, have enjoyed well sustained relations with the large car manufacturers over an extended period, though more than one case could be cited where the latter shifted at short notice from one substantial supply source to another. In times like the present, when prompt deliveries rather than tight pricing are the transcendent factor, continued receipt of large orders is better assured than in normal periods when questions involving a few cents per item often turn the scales.

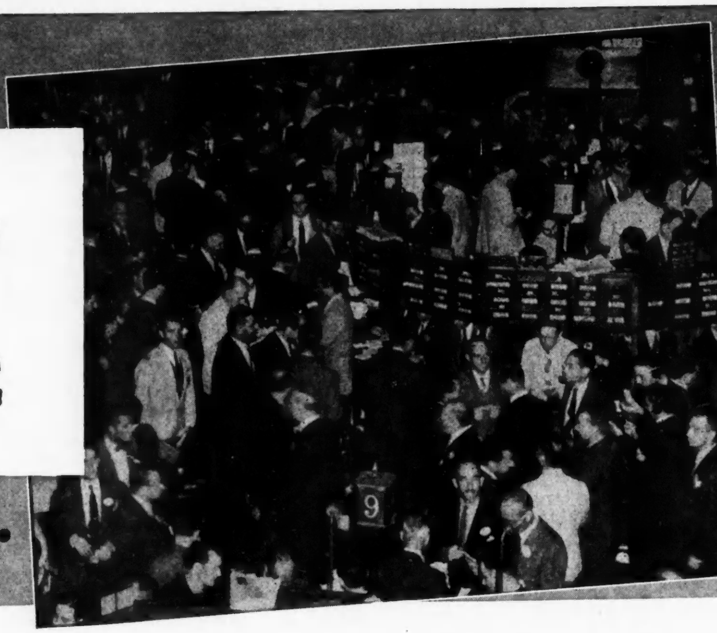
(*Please turn to page* 672)

Statistical Data on Leading Automotive Parts and Accessories Companies

Smith, A. O.	22.0	4.52	6.00 A	1.00	2.1	62½-38	47	7.8	B1	Heavy demand for pipe, auto frames and heating equipment, resulting in record breaking earnings, like to continue. Dividend well assured.
Standard Steel Spring	7.0	1.08	2.00	.50	4.5	17⅛-10⅞	11	5.5	C+1	Enjoys bright prospects for well sustained peak earnings during medium term. Dividend may be improved in due course.
Stewart Warner	15.8	1.65	2.00	1.00	7.7	19½-12⅛	13	6.5	C+2	Substantial rise in net earnings last year may be extended somewhat in current period. Dividend status not likely to vary.
Thermoid	4.5	2.13	1.00	.90	10.0	13⅞- 8⅝	9	9.0	C+1	Important producer of asbestos and rubber items with good outlook for gains in earnings. Small dividend well assured.
Thompson Products X	27.3	2.71	9.00	2.00	4.7	59½-38	43	4.8	B1	Combined sales to automotive and aircraft industry trending sharply upward, along with earnings. Greater dividend liberality quite possible.
Timken Detroit Axle	22.7	1.43	2.91 A	1.25	7.0	21⅜-15⅜	18	6.2	B—1	Diversification of output tending to expand volume. Favorable outlook assures continuity of current dividend rate.
Timken Roller Bearing X	36.2	2.27	5.25	3.00	6.6	53¾-40½	45	8.6	B1	Widespread demand for bearings sustaining volume and profits at peak peacetime levels. Change in dividend policies improbable.
Young, L. A. Spring & Wire	5.7	.67	3.52 A	1.00	5.9	23⅝-14½	17	4.8	B1	Rise in earnings for first quarter of fiscal year indicate 1948 net may reach new peak. Dividend prospects bright.

A—Actual.
*—Latest indicated.
a—Adjusted.
b—9 months ended Sept. 30.
c—9 months ended Nov. 30.
d—9 months ended Sept. 28.

FOR PROFIT AND INCOME



Duration

In the 50-year history of the Dow-Jones industrial average the longest bear market ran for about 34 months from Spet. 3, 1929, to July 8, 1932. The shortest lasted only about four and three-quarters months, from Nov. 12, 1938, to April 8, 1939. The present situation is peculiar, for in the decline from the 1946 bull market top the low to date in the Dow industrials was made as far back as October, 1946. Should that low hold, this will have been one of the shorter bear markets—less than four and a half months. Should it be broken, no matter by how little, this will become one of the longer bear markets. Assuming that it is still a bear trend, it is already a little over 21 months old. The bear market of 1919-1921 ran 22 months; that of 1937-1938 for just under 13 months; that from September, 1939, to April, 1942, for a little over 31 months.

Opinion

As we have noted at various times before, the Dow industrial average is a defective measuring device, especially as applied to major market swings. As shown by more reliable indicators, the major lows so far were made last May, making the bear market about a year old as of that time. This column believes it is still a bear market, and that there is a good chance it will end within the present year. Assuming the final low is in 1948 but after the first quarter, the bear market could be anywhere from roughly 22 months old to 31 months when completed. The severity of major declines has usually had some relations to their duration, but is to be doubted that this will be so in the present instance. In total percentage drop, this column expects it to be among the more moderate bear markets. Probably the 20-point zone under 163 in the Dow average is a buying zone. However, all past experience teaches that buying after adequate evidence of stabilization is likely to be safer and more advantageous than scale-down buying on what cannot be much more than a "hunch" basis.

Resistance

At the mid-February low the Dow industrial average, as well as more representative daily price indexes for the industrial list, got to within 2% or so of the old low. However, the number of stocks making new bear-market lows individually was relatively moderate—more so than on a couple of previous downside tests. So far as it goes, this evidence of well-diffused support is encouraging. Even a number of stocks which long had been "bad actors" have appeared stabilized for several weeks—"making a line' as the chartists call it. However, the general trend is the decisive consideration. If the "Dow" eventually goes to a new low, so will the vast majority of speculative issues, no matter how deflated they may already seem.

Yields

With total dividend payments still trending up, representative industrial stocks at the February

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Carrier Corp.	12 mos. Jan. 31	$3.47	$1.02
Peabody Coal Co.	9 mos. Jan. 31	2.21	.53
Smith, A. O.	Jan. 31 quar.	3.41	.25
Southwestern Public Service	12 mos. Jan. 31	2.44	1.90
Royal Typewriter	Jan. 31 quar.	1.03	.85
Cleveland Elec. Ill.	Year Dec. 31*	2.80	*2.55
Detroit Steel Products	Year Dec. 31*	6.25	*2.41
El Paso Natural Gas	Year Dec. 31*	5.13	3.64
General Plywood	Year Dec. 31	5.16	4.62
Glen Alden Coal	Year Dec. 31*	3.15	2.82

*For 1947 and 1946

lows reached an average yield basis of over 6% for the first time in this bear market, well over twice the yield on high-grade corporate bonds. The highest average stock yield ever seen (over 10%) was in 1932, under panic conditions. However, bond yields then were roughly twice as great as now. In fact, the yield differential, in favor of common stocks, is now over 20% greater than the widest differential of 1932. However, it is considerably less wide than was seen near the end of the 1937-1938 bear market or in the final month of the 1939-1942 bear market, when bond yields had been sharply lowered by the Government's cheap-money policy. At the 1942 low the return available on typical industrial equities was over three times that on high-grade bonds. There are a number of things, including the disturbing world situation, which make for low speculative confidence, and put a premium on safety. Regardless of interim fluctuations, this column suspects that we are in for an extended period of relatively high yields on common stocks. Certainly from an income standpoint, common stocks will offer better opportunities than in some years, although careful choice will be essential.

Tampa Electric

Current yields on many operating utility stocks are attractive and it is improbable, in this column's view, that these issues are going importantly lower. Tampa Electric is one of many examples. Dividends, liberal in relation to earnings, have been paid without interruption for some 40 years. Due to the nature of the territory served in Florida, earnings have shown good stability over the long term. Growth prospects are above-average as utilities go; and should involve no financing difficulties in view of the company's high credit status. There is only $13.5 million of funded debt, carrying an average interest charge of roughly 2¾%, ahead of the 597,867 shares of common. The indicated $2 dividend rate on the latter now yields about 6.7% return. Among a number of other good utilities and their current approximate yields are: Boston Edison, 6.5%; Cleveland Electric, 6.1%; Dayton Power & Light, 7.2%; Ohio Edison, 6.9%; Pacific Gas & Electric, 6.2%, Philadelphia Electric, 5.5%.

Movies

At recurrent periods, for years, there has been talk that Hollywood was really cutting out extravagance and getting down to business. This time it is believable, because it is a matter of necessity. People are staying away from the average picture "in droves," although flocking to see the small minority of good ones. Both abroad and here, enough good movies have been produced at reasonable cost to prove that it can be done. The requirements are talent, imagination and a modicum of business prudence. At least with respect to the last two of these requirements, lean pickings should help Hollywood. Meanwhile, the movie stocks begin to look pretty well sold out. We would not get more and more bearish on them from here on; but their road back up the hill in the stock market probably will be a long one.

Sutherland Paper

Sutherland Paper ranks high in the paper industry with respect both to long term growth and relative stability. The bulk of its business is manufacture of custom-built paper containers for foods, tobacco and other consumption-goods items subject to pretty steady demand. Between 1929 and 1939, earning power almost doubled. From 1939 through 1947 it more than tripled to a record $6.87 a share. The continuing expansion of facilities has been financed out of surplus profits. Sole capitalization is 344,000 common shares. The book value is about $36 a share, net working capital about $15 a share. Dividends of $2.50 last year, although a record high, seem conservative and readily supportable. The stock, at 39 and yielding 6.4%, offers a solid value from any longer-term point of view.

Radio

On a gross business of over $314 million in 1947, the Radio Corporation of America managed to earn a profit of $1.12 a share. This is excellent, since earnings in most years have been figured in pennies per share. Although well down from its bull-market high, the stock does not look cheap on a statistical basis—although it rarely does, and the same, of course, can be said for the majority of low-price stocks. Around 8, it is selling for over 7.1 times boom-earnings per share. You can buy a great many better stocks at price-earnings ratios no higher than that, and many at lower ratios. That applies, for example, to most of the top-flight oils, to name but one group. Regardless of values, there are times when low-price stocks are excellent speculations. We do not think this is one of those times.

Textiles

Every branch of the textile industry has heavy booking, and professes optimism on prospects. This column, nevertheless, has some reservations. Consumer resistance to high apparel prices cannot be lightly dismissed, and profit margins, especially in cotton and woolen goods, are abnormally wide. A shake-down seems bound to come, and this looks like the right year for it. Basically, the rayon branch of the industry is by far the best situated.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
American Home Products	Year Dec. 31	$1.72	$2.46
Beck (A. S.) Shoe Corp.	Year Dec. 31	3.40	4.49
Nicholson File	Year Dec. 31	3.01	3.44
Parker Rust-Proof	Dec. 31 quar.	.88	1.04
Ruppert (Jacob)	Year Dec. 31	2.06	3.84
Starret Co. (L. S.)	6 mos. Dec. 31	2.73	4.32
Thatcher Glass Mfg.	Year Dec. 31	2.29	3.42
Thompson Co. (John R.)	Year Dec. 31	.99	1.70
Victor Chemical Works	Year Dec. 31	2.47	2.65
Powdrell & Alexander	Year Dec. 31	3.46	5.57

Is Fear of Inventory Losses Overdone?

(*Continued from Page* 635)

unlike the trade groups, no net liquidation occurred in any month. However, the rate of inventory accumulation declined fairly steadily to the end of the year and since then, a further drop is more than likely. This goes for the overall inventory picture. Also of interest is the fact that among manufacturing industries, finished goods inventories increased more rapidly during last year than other inventories. The resulting composition, as shown in another tabulation, showed better balance than the year before and was more in line with prewar proportions, though still showing marked differences.

Thus the ratio of finished goods to total inventories rose to 32% from 29% at the beginning of 1947. At the end of 1939, by comparison, the ratio was fully 40%. Finished goods stocks of manufacturers, in other words, are considerably less than prewar, both in relation to total inventories and physical volume, if the price rise is taken into consideration. Essentially this is a healthy feature. The same can be said for the ratio of total inventories to sales. Whereas back in 1939, inventories were 2.4 times sales (on a monthly basis), they were only 1.6 times sales at the end of 1947. Actually, in prewar, the ratio was frequently as high as 3.5 times. Thus in relation to sales, inventories today are far from excessive; one suspects that in many cases, they may be just large enough to cover current business requirements.

On the other hand, purchased materials and goods in process last year accounted for about 68% of total inventories whereas in 1939 they accounted for some 60%. Goods in process amounted to 24% of total inventories at the year-end, barely changed from the 23% figure at the beginning of the year. Purchased materials on the other hand declined from 48% to 44%, indicative of the generally more conservative attitude in buying policies.

As far as manufacturers inventories are concerned, it is noteworthy that over two-thirds of the 1947 inventory increment was in durable goods industries. Year-end stocks held by the latter were estimated at $12.4 billion, those of non-durable goods industries at $11.3 billion, little changed from the November peak figures. In December, last month for which official data are available, they went up only $77 million but reached a postwar high of $23.69 billion. The increase was the smallest registered in any 1947 month except July. Important is of course that business sales, in all three categories, throughout kept pace with rising inventories right down to the present. Thus total business sales in December jumped to over $42.5 billion, a rise of more than $3 billion. Manufacturers' sales jumped $800 million to some $15.5 billion; wholesalers' turnover was $14.38 billion and sales of retailers amounted to $12.65 billion, all peak figures.

With inventory buying reduced to quite a conservative basis, it is safe to assume that the trend of inventory accumulation has by now not only flattened out but may show a moderate downturn, if only temporarily until price trends are further clarified. Any recessionary trend however is likely to remain moderate (barring a really severe price slump) for the simple reason that inventories for the most part are far from excessive in relation to current business requirements and that such requirements, in view of the large still unsatisfied demand for many classes of goods, still bulk large enough to assure a fairly high amount of replacement buying.

This in itself is perhaps the principal safeguard against any undue further price decline with its inherent inventory risk. There are others, that should materially cushion the price decline, if it spreads, and reduce its impact on most businesses. Above all, they should render quite unlikely the possibility of such severe inventory losses as suffered in the early 1920s and in the Thirties. In short, the overall inventory picture today appears a lot brighter.

First of all, companies have been setting up substantial reserves against possible inventory losses, estimated to exceed $1 billion. Keenly aware of the dangers that lurk in a prolonged price rise, most concerns thus will not be caught as badly unprepared as in years past. While the combination of huge demand and high price levels has forced them to carry large and high-priced inventories, they have done what they could to minimize inventory risks by providing adequate contingency reserves.

Also, more and more companies have adopted the LIFO method of inventory valuation which in large measure eliminated inventory inflation and thus equally prevents its deflation. To mention but one example: U. S. Steel Corporation which adopted "lifo" back in 1941, carries its inventory at about $150 million less than present market values. Naturally, this provides a substantial cushion against the impact of price declines.

(*Please turn to page* 675)

Estimated Value of Business Sales and Inventories*

(Millions of Dollars)

	1947 Sept.	Oct.	Nov.	Dec.
TOTAL BUSINESS SALES	38,575	42,361	39,457	42,531
Manufacturing	14,628	15,962	14,624	15,494
Durable goods	6,390	6,958	6,412	6,973
Nondurable goods	8,238	9,004	8,212	8,453
Wholesale	13,806	15,489	14,125	14,380
Durable goods	3,527	3,963	3,573	3,781
Nondurable goods	10,279	11,526	10,552	10,739
Retail	10,141	10,910	10,708	12,657
Durable goods	2,582	2,831	2,631	2,951
Nondurable goods	7,559	8,079	8,077	9,687
TOTAL BUSINESS INVENTORIES	40,030	40,992	42,050	41,212
Manufacturing	23,120	23,436	23,714	23,694
Durable goods	12,119	12,259	12,291	12,402
Nondurable goods	11,001	11,177	11,423	11,389
Wholesale	6,888	6,930	7,370	7,499
Durable goods	3,065	3,077	3,163	3,305
Nondurable goods	3,823	3,853	4,207	4,114
Retail	10,022	10,626	10,966	10,019
Durable goods	3,854	3,983	4,215	3,881
Nondurable goods	6,168	6,643	6,751	6,239

Keeping Abreast of Industrial and Company News

Last year 460 new industries located along the eleven-state **New York Central System.** It is expected that this will produce more new freight for the Central than was gained from new industries in any other peacetime year. This new traffic is the equivalent of adding a new major city to the Central.

Radio Corporation of America and **Allis-Chalmers Manufacturing Company** have entered into an agreement for marketing industrial electronic equipment: Allis-Chalmers will distribute RCA high frequency heating equipment and RCA metal detectors in addition to its own regular line of electronic heating equipment.

Continental Can Company, Inc. has developed a low-pressure type container for insect spraying. Priced at less than 50% of similar "bug-bombs" on the market, the container will open up a large new market for low-priced canned spray insecticides. A minimum of 15,000,000 cans are expected to be sold this year.

The Mengel Company is displaying to the trade its new Plyshels, a molded plywood case to facilitate the distribution of soft drinks. This has already been adopted by sixteen Coca-Cola bottling companies. Among many advantages is the fact that it reduces repairs to the vanishing point.

According to J. R. Hoover, vice president of the **B. F. Goodrich Chemical Company,** the plastic industry is now six times bigger than in 1939. It is geared to produce and convert into finished goods more than one billion pounds annually of chemically-made basic materials.

Frazer Farm Equipment Corp., a division of **Graham-Paige Motors,** has introduced a revolutionary new tractor. It has a six-horsepower aircraft-type engine, six speeds forward transmission, and will run from one to three hours on a gallon of gasoline—or kerosene.

Libbey-Owens-Ford Glass Company reports that tests on the effectiveness of Thermopane show that the insulating glass reduces the heat ordinarily lost through windows by about 50% or that conventional window areas can be practically doubled without boosting fuel costs.

Westinghouse Electric Corporation has announced the development of a new germ-killing lamp, said to fire more than twice as many ultraviolet "bullets" at bacteria as any lamp heretofore available. Known as the Slimline Germicidal Sterilamp, it is expected to halve over-all ultraviolet protection costs.

Minneapolis-Honeywell Regulator Company states that the automatic control era has reached a high point that will make it possible for one organization alone, its Brown Instrument Division, to produce more than 7,000 different automatic controls for industry and home uses.

If the activities of the **American Can Company** are any indication, quite a large number of the forty million dwelling units in the country will be getting a new paint job this year. The company is producing a record number of five gallon paint cans.

With approximately $30,000,000 in working capital, without a single bank loan, share of preferred stock or bond outstanding, **Packard Motor Car Company** points out that it is in the strongest financial position in its 49-year old history. Company reports continuing demand and order backlog from dealers.

The **E. I. du Pont de Nemours & Co.** is constructing a new unit to manufacture insecticide at the Houston, Texas, works of the Grasselli chemicals department. The new insecticide has been found effective for destroying grasshoppers, fleahoppers, Japanese beetles, cattle lice, boll weevil, etc.

The **American Telephone & Telegraph Co.** plans to construct additional television network channels this year. Included in the program are 2,000 miles of television network which will link the east with the midwest; while the existing network from Boston to Washington will be augmented.

The Panhandle Producing and Refining Company has contracted to acquire all the outstanding capital stock of the Wil-Tex Oil Corporation for approximately $4,000,000. No public financing will be necessary for the purchase. Funds will be raised by means of a loan from an insurance company.

The Norfolk and Western Railway has announced plans to build 1,000 all-steel seventy-ton hopper cars, to cost approximately $4,250,000. The cars will be built in the road's Virginia shops and will be in addition to 2,000 cars previously ordered.

A new device to determine accurately the speeds of the fastest-travelling airplanes has been revealed by the **Boeing Aircraft Co.** This is based upon the "radio doppler system." Clocking planes during a flight of several miles, the new device indicates the exact speed at every instant.

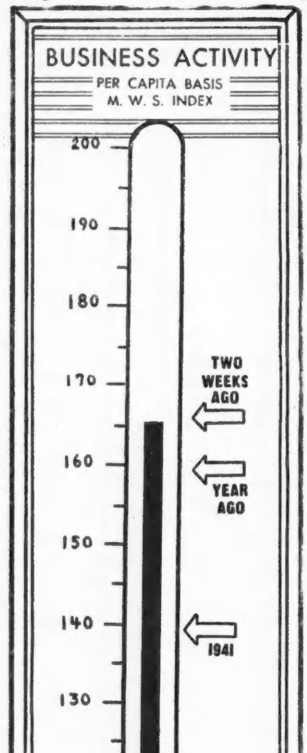
Monsanto Cemical Co. has selected the Scioto Ordnance Works as a site for the construction of a $5,000,000 atomic energy installation. As part of the Atomic Energy Commission's construction and research program, the new installation will be used for the investigation of basic chemical problems of atomic energy.

To relieve the world-wide thirst for oil, **Creole Petroleum Corporation** and **Shell Union Oil Corp.** are building two big refineries in Venezuela. Total cost will be close to a quarter of a billion dollars. In view of many problems, full production is not expected to be attained before 1950.

What's Ahead for Business?

By E. K. A.

The shift in business sentiment from optimism to conservatism continues under the impact of spreading opinion that things have become a bit "soggy" as a result of the commodity price break which occurred a little more than a month ago. As soft spots appear here and there, the feeling is deepening that "all is not right" with business; still overall conditions continue highly satisfactory. The real test is yet to come, within 30 to 60 days, it is believed.



There are increasing signs of a return to more competitive conditions in many lines, and of restoration of normal seasonal patterns which forecasters may be apt to confuse with recessive conditions rather than recognize them for what they are. Trend developments henceforth should be scrutinized from this particular angle, lest they lead to faulty conclusions.

Meanwhile production keeps rolling. Measured in terms of the Federal Reserve Board Index of Industrial Production, it held steady at the peace-time record level of 192 in January for the third straight month despite bad weather. Subsequently, no doubt, it eased off moderately, largely due to the influence of cold weather on plant operations in such key industries as steel, automobiles and others. As a result, the February Index is likely to be down a few points. The big question is: Will it hold thereafter? It would take a sustained decline of perhaps five points or more within a relatively few months to serve as confirmation of a business recession. A downtrend of such proportions, in the near future at least, is still an open question despite certain uncomfortable facts that have recently come to the fore.

One is a slowing down of new orders in the wake of greater restraint in buying policies, a direct consequence of the commodity price break which intensified the tendency towards short-term buying. Another is sudden revival of emphasis on cost cutting on the theory that a test in break-even points may be near. The "new caution" is increasingly felt in gray markets where considerable price softening is going on. Ultimately this may backfire in legitimate markets. While perhaps symptomatic of things to come, this is all to the good. Considerable softening is currently occurring in the form equipment market where high premiums over list prices were the rule until recently. Gray market operators now play a cautious game, anticipating less eager demand.

Price Trends

Price trends continue uneven, some up, some down. While the deflationary sentiment has been tempered by the advance of semi-finished steel products, this may not mean too much as a clue to the future. Industrial raw material prices for the most part are holding. Farm commodities are hovering in an uneasy trading range; with the crop scare stage just ahead and with crops vulnerable to unfavorable twists in the weather, there is no telling what next. Wholesale prices have steadied, their downtrend for the moment largely arrested. For future price trends, watch crop weather and business activity over the next few months. They may furnish the best clues.

Other Things To Watch

Some other indicators should not be ignored. One is the labor market. It's still tight, with employment high. Any easing deserves careful analysis for clues to production trends. Another is commercial loans by banks, not only as an indicator of confidence in the business outlook but as a possible sign of inventory liquidation. Loans recently have been declining. If the trend continues or becomes more pronounced, it almost certainly means that inventories are being worked off, voluntarily or involuntarily. Watch then for price impacts! With a high percentage of working capital of businesses tied up in inventories and with greater vulnerability to price fluctuations, it would be a logical development though in all likelihood gradual rather than abrupt. If so, it will take much of the sting out of the process—but sting it will.

By and large, the sag in business opinion so far has not been matched by a comparable sag in business. It may ultimately catch up, but it's still too early to state with conviction that the economic adjustment now under way cannot be sucessfully accomplished in piecemeal fashion at a continued high level of activity.

The Business Analyst

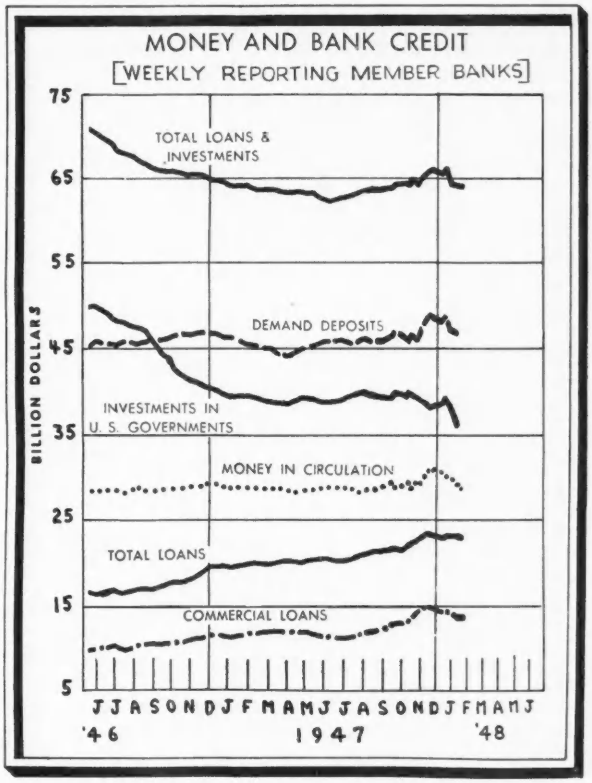
HIGHLIGHTS

MONEY AND CREDIT—New York and Chicago bank reserve requirements raised to 22%, from former 20%, effective Feb. 27. Treasury to pay off in March more than $1 billion of the national debt. Member bank net earnings last year were 14% below 1946; but they still returned 7.9% on invested capital. Bank of Canada again lowers support levels for the Dominion's medium and long term bonds. Dutch government plans to requisition and sell gradually $500 million of U. S. securities.

TRADE—Department store sales in week ended Feb. 21 jumped to 21% above last (with New York City up 35%), against cumulative gain of only 6% for year to date.

INDUSTRY—Business activity picks up a little under more clement weather. Higher prices largely responsible for 13% increase last year in the value of all goods and services produced, compared with 1946. People spent 14% more last year and saved 29% less, than in 1946. Business in general this year will probably not be so good in the second half as in the first; but no major depression yet in sight.

COMMODITIES—Prices rally inconclusively. Agriculture Department fears another slump before July 1. Cotton helped by plans to buy for export to China and Japan. Labor Bureau's daily indexes of spot commodity prices all lower now than a year ago, except for the 7 domestic agricultural products. Owing to near-record storage holdings and consumer resistance to high prices, meat shortage this spring may not be so acute as Government soothsayers have been predicting. Should commodities decline to new lows this year, the drop will not be so severe as in 1921-2.



Better weather and easing of the gas shortage permitted a little recovery in **Business Activity** last week to a level 7% above last year at this time. This was accompanied by a 2% contraction in electric power output and a 3% decline in paperboard production.

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Lower electric power output might have been due to a considerable drop in demand for heating purposes; but paperboard reports will be worth watching for a few weeks to see if the recent contraction in production was more than temporary. New orders for **Paperboard** are looked up as one of the most up-to-date barometers of longer range general business prospects. They declined sharply during the fortnight ended Feb. 21 but were still above last year. Perhaps here, as in a number of other lines, buyers held back a bit to see how the business world is going to react to the drop in commodity prices.

* * *

Department Store Sales in the week ended Feb. 21 spurted to 15% above last year, compared with a 3% decline during the previous week and a cumulative increase of only 6% for the year to date. At New York City, sales were up 35%. Next week's showing will not be so favorable. The reason for this is that there are six shopping days this year during the week ended Feb. 21; but only five in the corresponding week last year when Washington's Birthday was observed on a Saturday, the best shopping day of the week.

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Owing mainly to higher prices, the **National Production** of goods and services rose last year to $230 billion—13% above 1946. Personal incomes totaled $197 billion, up 12%. Personal taxes took $22 billion of this against only $19 billion in 1946. This left $175 billion of spendable income, about 11% more than for 1946. Of the $175 billion, consumers spent $164 billion and saved $10.9 billion. In 1946 they saved $14.7 billion out of expendable incomes totaling only $158 billion.

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It is interesting to learn that expenditures for personal **Durable Goods** totaled $20 billion, a third more than in 1946. Purchases of durable equipment by producers was 40% ahead of 1946. **Business Inventories** were slightly lower even in dollar value at the end, than at the beginning, of 1947.

* * *

According to a report by the Bureau of Labor Statistics, just released **Retail Food Prices** declined 3% to 4% from Jan. 13 to Feb. 17 in consequence of the sharp drop in farm commodity prices, and sizeable **Inventory Losses** were suffered by growers, processors and distributors. In non-farm business, however, adequate inventory reserves had been set up foresightedly to absorb most of the loss.

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These are the most notable direct consequences of the slump; but several instances have been reported in which business has been led to move with more caution. On Feb. 9 the American Woolen Co., for example, announced price increases of 8% to 12% on **Worsted Cloth** for men's wear for fall delivery. Some weeks prior to this, it was expected that the price increases would be considerably greater.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Jan.	1.20	1.15	1.42	1.55
Cumulative from Mid-1940	Jan.	364.0	362.8	349.0	13.8
FEDERAL GROSS DEBT—$b	Feb. 25	254.6	254.3	259.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 18	47.4	47.6	45.2	26.1
Currency in Circulation	Feb. 25	28.1	28.1	28.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Feb. 18	8.83	8.96	7.97	4.26
93 Other Centers—$b	Feb. 18	12.62	12.77	11.92	7.60
PERSONAL INCOMES—$b (cd3)	Dec.	209.7	204.2	189.9	102.0
Salaries and Wages	Dec.	129.3	128.3	118.6	66.2
Proprietors' Incomes	Dec.	54.0	49.9	47.2	22.8
Interest and Dividends	Dec.	15.6	15.5	13.7	10.0
Transfer Payments	Dec.	10.8	10.5	10.4	3.0
(INCOME FROM AGRICULTURE)	Dec.	25.8	21.9	22.6	10.1
CIVILIAN EMPLOYMENT—m (cb)	Jan.	57.1	57.9	55.4	51.8
Agricultural Employment (cb)	Jan.	7.1	7.0	6.5	8.8
Employees, Manufacturing (lb)	Jan.	15.8	15.9	15.3	13.8
Employees, Government (lb)	Jan.	5.4	5.6	5.4	4.8
UNEMPLOYMENT—m (cb)	Jan.	2.1	1.6	2.4	3.8
FACTORY EMPLOYMENT (1b4)	Jan.	157	158	153	47
Durable Goods	Jan.	183	184	178	175
Non-Durable Goods	Jan.	136	138	133	123
FACTORY PAYROLLS (1b4)	Dec.	357	345	306	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Dec.	41.1	40.5	40.9	40.3
Hourly Wage (cents)	Dec.	127.7	126.8	114.8	78.1
Weekly Wage ($)	Dec.	52.51	51.31	46.96	31.79
PRICES—Wholesale (1b2)	Feb. 21	159.3	159.7	144.3	92.2
Retail (cdlb)	Nov.	185.9	184.9	171.5	116.2
COST OF LIVING (1b3)	Dec.	167.0	164.9	153.3	110.2
Food	Dec.	206.9	202.7	185.9	113.1
Clothing	Dec.	191.2	190.2	176.5	113.8
Rent	Dec.	115.4	115.2	108.8	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Jan.	9.72	12.66	8.24	4.72
Durable Goods	Jan.	2.31	2.96	1.84	1.14
Non-Durable Goods	Jan.	7.41	9.70	6.40	3.58
Dep't Store Sales (mrb)	Jan.	0.70	1.36	0.58	0.40
Retail Sales Credit, End Mo. (rb2)	Jan.	6.06	6.44	4.33	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Dec.	252	267	241	181
Durable Goods	Dec.	291	306	271	221
Non-Durable Goods	Dec.	228	244	223	157
Shipments (cd2)—Total	Dec.	320	329	276	184
Durable Goods	Dec.	351	349	292	223
Non-Durable Goods	Dec.	300	315	266	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Nov.	42.1	41.0	35.2	26.7
Manufacturers'	Nov.	23.7	23.5	19.9	15.2
Wholesalers'	Nov.	7.4	6.9	5.7	4.3
Retailers'	Nov.	11.0	10.6	9.6	7.2
Dept. Store Stocks (mrb)	Nov.	2.3	2.2	2.2	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 661)

On the other hand, several large producers in the **Steel Industry** chose this inopportune time to announce an increase in prices upon certain semi-finished products which were being produced at a loss. The increases will add little to living costs, but came at a time when steel workers were about to open negotiations for a third round of wage increases, and while President Truman was putting pressure upon Congress for more authority to control prices. The ensuing political dither over the incident is out of all proportion to its importance as an inflation factor; but will be worth all the fuss if it will make certain industries to cultivate more friendly public relations.

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Some of our older readers will recall that it was the **"Public Be Damned"** attitude of a certain railroad president of yore that started the agitation for Government regulation of business with the Interstate Commerce Commission as one of the earlier bureaus to be set up by law. It is just such incidents that help to condition the unthinking members of the public to accept, or even demand, some form of totalitarian government over this country.

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Of course this is the last thing that any intelligent business man wants; for, as Governor Dewey remarked in a recent public address: "I am profoundly convinced, after eighteen years in government, that government can never do any job as well as **Private Enterprise.**"

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Other developments which antedate the commodities slump suggest that business may not be so good this year in the second half as in the first; though it is doubtful if we are heading yet into a major recession.

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Among the none-too-favorable indications are that, for the first month since the war, our excess of **Exports** over imports was a trifle smaller in December than a year earlier. **Commercial Loans** of reporting member banks since the first of the year have contracted $25 millions; whereas last year during the same period they expanded $411 millions.

* * *

Most of the contraction in bank credit that is now getting under way is more the outcome of voluntary action on the part of the banks than to such mild controls as have been put in motion by Government fiscal authorities. The leadership of this plan for **Voluntary Credit Control** wisely take the attitude that it is better to check credit expansion now before it expands too dangerously; that voluntary control is more flexible than Government control; and that, by checking undue expansion now the banks

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Feb. 21	166.3	165.7	159.6	141.8
(M. W. S.)—1—np	Feb. 21	186.8	186.1	174.5	146.5
INDUSTRIAL PROD.—1—np (rb)	Jan.	192	192	189	174
Mining	Jan.	155	156	146	133
Durable Goods, Mfr.	Jan.	227	229	221	141
Non-Durable Goods, Mfr.	Jan.	176	173	176	141
CARLOADINGS—t—Total	Feb. 21	805	734	777	833
Manufactures & Miscellaneous	Feb. 21	379	349	350	379
Mdse. L. C. L.	Feb. 21	113	106	110	156
Grain	Feb. 21	35	37	49	43
ELEC. POWER Output (Kw.H.)m	Feb. 21	5,254	5,385	4,778	3,267
SOFT COAL, Prod. (st) m	Feb. 21	12.8	11.2	13.0	10.8
Cumulative from Jan. 1	Feb. 21	90.2	77.4	98.4	446
Stocks, End Mo.	Dec.	52.2	50.5	47.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 21	5.3	5.3	4.8	4.1
Gasoline Stocks	Feb. 21	110	108	102	86
Fuel Oil Stocks	Feb. 21	50	50	44	94
Heating Oil Stocks	Feb. 21	34	36	40	55
LUMBER, Prod. (bd. ft.) m	Feb. 21	507	506	434	632
Stocks, End Mo. (bd. ft.) b	Dec.	5.5	5.4	4.6	12.6
STEEL INGOT PROD. (st.) m	Jan.	7.46	7.36	7.21	4.96
Cumulative from Jan. 1	Jan.	7.46	84.6	7.21	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 26	129	89	92	94
Cumulative from Jan. 1	Feb. 26	917	788	790	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 21	160	159	147	165
Wood Pulp Stocks, End Month (st)t	Dec.	98	110	71	98
U. S. Newsprint Consumption (st)t	Jan.	382	429	355	352
Do., Stocks (mpt) End Month st)t	Jan.	529	516	457	523
Pneumatic Casings Production—m	Dec.	8.0	7.7	7.5	4.0
Anthracite Coal Production (st)m	Jan.	4.9	4.9	5.1	3.8

PRESENT POSITION AND OUTLOOK

will not be forced to take large losses in the next depression, and will have enough reserve lending power to help check the depression when it does come.

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Largely in consequence of mounting costs, net profits of the 6,900 member **Banks** in the Federal Reserve System were 14% lower last year than in 1946; yet they amounted to 7.9% on total invested capital.

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Recent rise in **Reserve Requirements** at New York and Chicago, combined with the further retirement of over $1 billion of the national debt, is likely to slow bank earnings awhile longer.

* * *

The Dutch Government's announced intention to requisition and sell gradually $500 million of Dutch-held U. S. securities might prove to exert, other things being equal, somewhat of a drag upon our own securities markets for awhile.

* * *

For the second time in two months, the Bank of Canada has lowered official support levels for the Dominion's medium and long term bonds.

* * *

Competition continues to break out among individual producers. Most notable recent instance of industry-wide competition is in the **Soft Drink Industry,** where leading producers are forced to go out and hustle for the nickel bottle trade.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

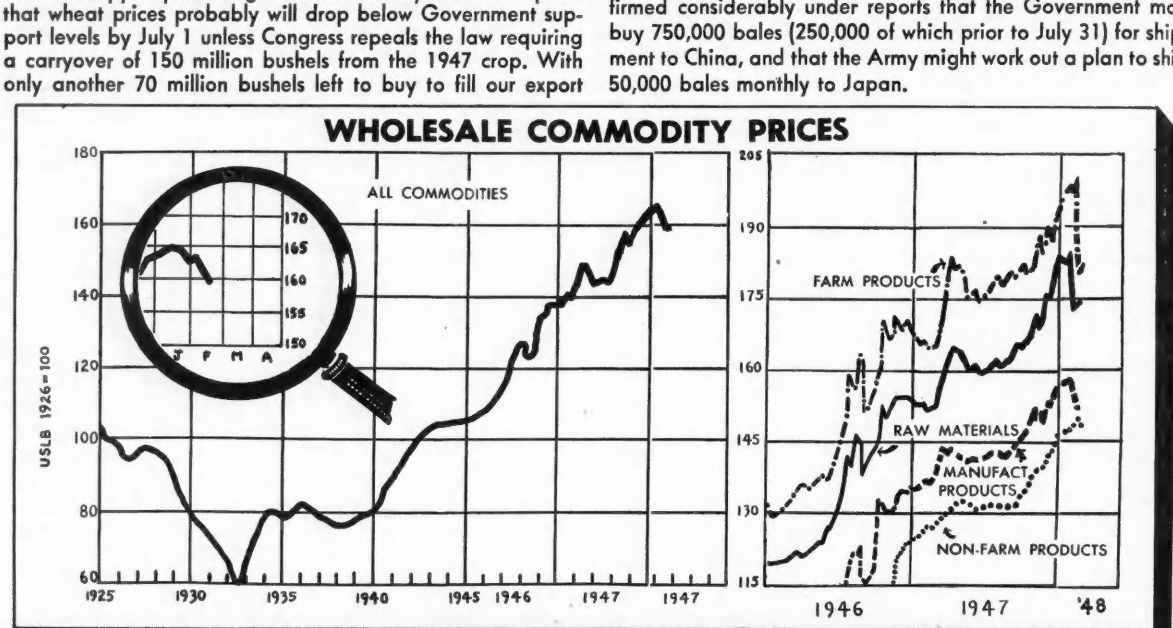
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Feb. 21	Feb. 28
312 COMBINED AVERAGE	133.1	119.0	119.4	120.1
4 Agricultural Implements	212.0	178.8	179.6	182.1
11 Aircraft (1927 Cl.—100)	153.4	134.3	136.8	150.7
6 Air Lines (1934 Cl.—100)	478.9	430.3	452.3	477.3
6 Amusement	90.3	78.7	80.2	78.7d
13 Automobile Accessories	201.5	173.1	174.3	173.1
12 Automobiles	38.4	32.0	32.0	32.1
3 Baking (1926 Cl.—100)	18.9	16.4	16.6	16.7
3 Business Machines	267.2	229.8	230.6	229.8c
2 Bus Lines (1926 Cl.—100)	149.3	133.4	134.6	133.4
5 Chemicals	244.1	221.6	221.6b	225.5
2 Coal Mining	17.8	14.7	15.7	15.2
4 Communication	46.7	42.3	42.3	43.5
14 Construction	64.2	56.7	57.2	56.7
7 Containers	323.3	287.1	289.0	287.1c
9 Copper & Brass	101.6	92.0	93.5	94.7
2 Dairy Products	56.8	50.7	51.2	50.7c
5 Department Stores	61.7	53.9	54.7	55.0
6 Drugs & Toilet Articles	172.4	149.8	150.7	151.2
2 Finance Companies	216.7	199.4	209.6	213.3
7 Food Brands	172.5	152.8	155.4	155.4
2 Food Stores	67.5	59.7	62.8	60.9
3 Furniture	80.8	70.9	70.9	72.6
3 Gold Mining	758.1	694.2	758.1	745.6

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 21	Feb. 28
100 HIGH PRICED STOCKS	84.05	75.27	75.90	76.07
100 LOW PRICED STOCKS	152.37	135.10	135.10	136.25
6 Investment Trusts	58.6	50.0	50.6	50.0
3 Liquor (1927 Cl.—100)	747.7	637.7	660.3	637.7
9 Machinery	157.1	136.8	139.0	140.0
3 Mail Order	100.8	89.9	90.6	89.9
3 Meat Packing	108.8	93.5	94.1	93.5
13 Metals, non-Ferrous	160.1	138.0	138.0	138.2
4 Paper	41.3	34.1	34.2	35.3
24 Petroleum	232.2	199.5	204.0	205.5
19 Public Utilities	106.7	97.8	97.9	97.8c
5 Radio (1927 Cl.—100)	20.7	17.8	17.8	17.8
8 Railroad Equipment	61.9	53.9	54.5	53.9d
24 Railroads	23.3	20.5	20.5	21.1
3 Realty	23.9	22.1	22.6	22.1
2 Shipbuilding	117.0	102.8	107.0	105.1
3 Soft Drinks	516.5	447.8	450.9	447.8b
14 Steel & Iron	110.9	96.2	97.7	97.8
3 Sugar	50.5	44.8	44.9	45.5
2 Sulphur	240.0	206.6	217.0	220.6
5 Textiles	140.0	120.5	122.4	121.5
3 Tires & Rubber	31.3	28.3	28.7	28.6
6 Tobacco	69.3	64.3	64.3	64.4
2 Variety Stores	319.5	286.9	288.8	295.2
17 Unclassified (1947 Cl.—100)	100.8	91.2	91.4	91.2

New LOW since: b—1946; c—1945; d—1944.

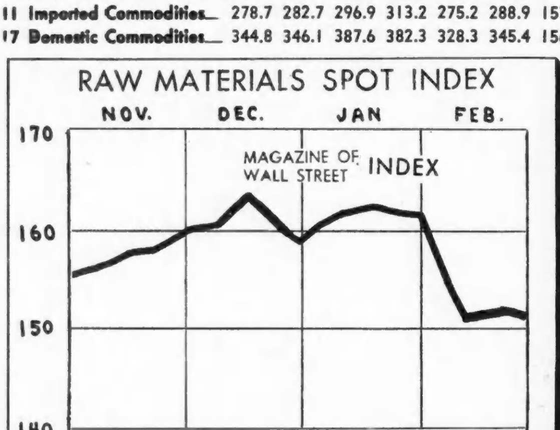
Trend of Commodities

Farm commodity prices staged an irregular and inconclusive rally during the past fortnight under short covering and reports of Government buying or plans for buying later. Recent developments tend to confirm the opinion expressed in this column in our last issue that the post-World War II peak in farm products prices, touched last December, will not be challenged again for some time to come. It is quite possible under favorable weather conditions that new lows for the year may be reached before the end of 1948, regardless of Government efforts to support prices. Agriculture Secretary Anderson opines that wheat prices probably will drop below Government support levels by July 1 unless Congress repeals the law requiring a carryover of 150 million bushels from the 1947 crop. With only another 70 million bushels left to buy to fill our export quota up to that date, one wonders how exporting over 100 million additional bushels could more than cushion such a big slump as he envisions. On the other hand there is little danger that additional declines will be as severe as the 1921-22 crash. World crops and export surpluses will be considerably larger this crop year than last; but will still fall short of pre-war on a per capita basis. Government support measures will also prevent the decline from reaching disastrous proportions. Cotton held better than grains during the recent slump and has since firmed considerably under reports that the Government may buy 750,000 bales (250,000 of which prior to July 31) for shipment to China, and that the Army might work out a plan to ship 50,000 bales monthly to Japan.



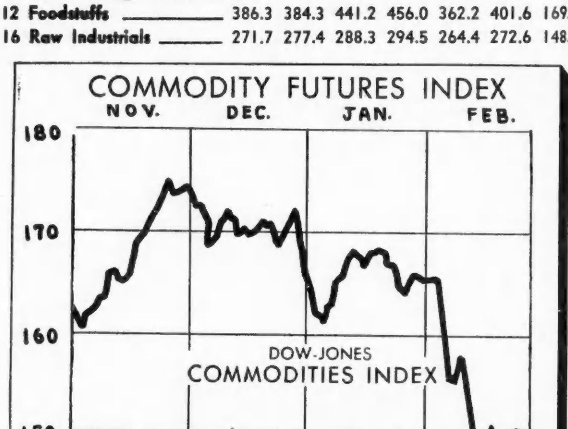
U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Feb. 28	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	317.1	319.6	349.1	359.1	306.3	322.0	156.9
11 Imported Commodities	278.7	282.7	296.9	313.2	275.2	288.9	157.5
17 Domestic Commodities	344.8	346.1	387.6	382.3	328.3	345.4	156.6
7 Domestic Agriculture	367.7	352.8	413.1	411.8	377.3	338.4	163.9
12 Foodstuffs	386.3	384.3	441.2	456.0	362.2	401.6	169.2
16 Raw Industrials	271.7	277.4	288.3	294.5	264.4	272.6	148.2



14 Raw Materials, 1923-5 Average equals 100
Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	163.6	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	150.6	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.63	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	146.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

New Factors Affecting The Oil Industry

(*Continued from page* 643)

just as it has severely hampered efforts to augment existing transportation and distribution facilities, particularly by pipe lines, tank cars, storage tanks, etc. Transportation has been a real bottleneck militating against better distribution and was largely responsible for local shortages that have characterized out postwar "oil crisis."

The new situation in turn has created new problems, some of which—such as future higher depreciation and depletion charges—we have already mentioned. These are bound to affect the future earnings picture. Additionally, expansion programs in many cases require sizeable amounts of new funds, at least part of which must be obtained through new financing, though reinvested earnings are likely to constitute a major source of funds for this purpose. Some major companies have already sought new funds through the sale of common stock and others may follow, and this has not been without market repercussions.

On the other hand, increased oil imports, formerly regarded as a threat, are now welcomed in the interest of conservation and exports have been placed on a reduced quota basis. Foreign reserves are relied upon not only to supplement part of home production but to take care of the bulk of foreign requirements formerly met by shipments from this country. In this respect, the Middle East with its huge crude oil reserves is bulking large as a future world supply area though these calculations are currently complicated by political developments in that part of the world. Back of the recently proposed synthetic oil program is not only the idea of freeing the United States from dependence on oil imports but to make available an assured supply, should political emergencies interrupt imports from abroad.

It was natural that demand and cost factors combined tended to make for a steadily firming oil price structure since price decontrol. Thus since the war's end, crude oil prices have been advanced no less than six times and on an average are now some 115% higher. The larger part of the increase occurred in 1947, with a 50c per barrel boost as recently as last December. Indicative of the underlying strength of the price structure is the fact that in some instances, premiums as high as 25c over posted prices are being paid. Oil men fear this may portend another upward move sooner or later as demand pressure continues unabated. A further and perhaps substantial price hike can by no means be ruled out, despite strong opposition such a move would meet among the big refiners. At any rate, any softening of the price structure appears as remote as the prospect of demand-supply balance.

All this accentuates the high value of existing crude oil reserves, hence companies with large holdings have been particular favorites of investors. Our statistical summary contains estimates of proven reserves of most of the companies listed, including foreign reserves where such holdings exist. Naturally, estimating oil reserves is not an exact science even in a well surveyed area like the United States; but the figures given serve as an interesting and valuable yardstick of the relative position of each company. Undoubtedly large holdings constitute a valuable asset and companies owning them are held to be in a particularly favorable position.

For the industry as a whole, additional earnings gains are strongly indicated for the current year, with new volume peaks likely, though the gains may be moderated by sharply higher charges for exploratory and development costs. Present dividends are well assured and in some instances may tend higher, but capital needs generally are likely to militate against the latter prospect. An important factor is that earnings represent the mechanism through which growth and expansion is mainly financed.

The industry this year will have have the full benefit of the latest 50c a barrel price boost which was only reflected in operations for one month last year. Though offset in part by higher costs and charges, the resultant earnings increment should permit a larger degree of self-financing than may be generally anticipated. Moreover, shortage of materials, chiefly steel, may slow expansion progress and thereby retard the need for funds, at least temporarily.

All in all, higher profits this year appear relatively certain for most companies, yet the market—because of the various factors mentioned, continues to capitalize earnings potentials at distinctly modest ratios, this despite the fact that augmented dividends last year have markedly raised yield rates. In view of this and the growth trend characteristic of the industry, leading oil company shares continue to have long term attraction, with emphasis on companies owning large crude oil reserves.

Last year, oil equities have consistently shown above average market action, in fact they put in the best performance of any major group with a good many individual shares surpassing their 1946 highs. During the recent market break, they have declined somewhat more than average, reflecting not only the high ground from which the decline started in their case and which was particularly conducive to profit taking, but presumably also some fears—which appear quite unwarranted—that the break in commodity prices might spread to oil.

Significant Factors Affecting Security Trends

(*Continued from page* 628)

procurement program, airlines on hopes of better operating results which seasonally at least appear assured; and gold mining shares strengthened on devaluation "jitters" which followed the French currency moves.

In the great majority of cases, the precentage declines are fairly closely in line with that of the index of 312 stocks. Groups which have declined considerably less than the composite index include coal mining, communication, public utilities, railroads, realty and variety stores. Some of the larger declines have been in automobiles and accessories, farm implements, drugs and toilet articles, investment trusts, liquor and textiles. Probably selectivity will become somewhat more pronounced as the year proceeds.

There is no change in our cautious policy. Continue to maintain cash reserves around 50% in average investment accounts. —Monday, March 8.

UNION CARBIDE AND CARBON CORPORATION AND SUBSIDIARIES

OPERATING IN UNITED STATES AND CANADA

UCC

CONSOLIDATED BALANCE SHEET

December 31, 1947

ASSETS

CURRENT ASSETS		
Cash		$ 99,230,150
United States Government Securities (Cost or Market, whichever lower)		100,562,015
Other Marketable Securities (Cost or Market, whichever lower)		1,252,819
RECEIVABLES (After Reserve for Doubtful)		
Trade Notes and Accounts	$ 55,203,718	
Other Notes and Accounts	10.227,669	65,431,387
INVENTORIES (Cost or Market, whichever lower) (See Note 2)		111,971,398
TOTAL CURRENT ASSETS		$378,447,769
FIXED ASSETS (Cost or less)		
Land, Buildings, Machinery, and Equipment	$520,242,668	
Deduct—Reserves for Depreciation and Amortization	282.182.966	238,059,702
INVESTMENTS (Cost or less)		
Affiliated Companies	$ 3,127,142	
Foreign Subsidiaries	24,338,440	27,465.582
DEFERRED CHARGES		
Prepaid Insurance, Taxes, etc.		3,353,987
POSTWAR REFUND OF EXCESS PROFITS TAX (Canadian Subsidiaries)		1,782,344
PATENTS, TRADE-MARKS, AND GOODWILL		1
		$649,109,385

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable		$ 28,199,416
Dividend Payable January, 1948		9,479,788
ACCRUED LIABILITIES		
Income and Other Taxes	$ 58,095,667	
Interest	315,000	
Other Accrued Liabilities	6.573,558	64,984,225
TOTAL CURRENT LIABILITIES		$102,663,429
DEFERRED LIABILITIES UNDER GOVERNMENT CONTRACTS		1,648,144
2.70% PROMISSORY NOTES PAYABLE DECEMBER 1, 1967 (See Note 3)		150,000,000
RESERVE FOR CONTINGENCIES (See Note 4)		6,541,043
CAPITAL STOCK OF UNION CARBIDE AND CARBON CORPORATION		
No Par Value—Not including 136,649 shares held by the Corporation		
9,278,163 shares	$192,922,561	
201,625 shares issued under Stock Purchase Plan for Employees and held by the Corporation as collateral (See Note 5)	21,618,969	
9,479,788 shares	214,541,530	
Less present amount of Agreements	21,480,171	
	193,061,359	
EARNED SURPLUS	195,195,410	388,256,769
		$649,109,385

CONSOLIDATED INCOME AND SURPLUS STATEMENTS

Year Ended December 31, 1947

INCOME STATEMENT

INCOME		
Gross Sales—Less Discounts, Returns, and Allowances	$521,844,814	
Other Income (Net)	6,703,499	$528,548,313
DEDUCTIONS		
Cost of Goods Sold, Selling, General, and Administrative Expenses	$389,420,731	
Depreciation and Depletion	16,644,574	
Interest on 2.70% Promissory Notes	315,000	
Income Taxes	46,501,216	452,881,521
NET INCOME FOR THE YEAR		$ 75,666,792
Net Income Per Share—On 9,479,788 shares outstanding December 31, 1947	*$7.98*	

SURPLUS STATEMENT

EARNED SURPLUS AT JANUARY 1, 1947		$142,227,825
ADDITIONS		
Net Income for the Year	$ 75,666,792	
Transfer from Reserve for Postwar Contingencies	15,000,000	90,666,792
		$232,894,617
DEDUCTIONS		
Dividends Declared	$ 37,692,552	
Decrease in Market Value of Marketable Securities at December 31, 1947	6,655	37,699,207
EARNED SURPLUS AT DECEMBER 31, 1947		$195,195,410

NOTES RELATING TO FINANCIAL STATEMENTS—1947

1—The principles used in preparing the accompanying consolidated statements for the year 1947 are as follows:

All subsidiaries that are one hundred per cent owned, and operate in the United States and Canada, are consolidated.

Current assets, deferred charges, current liabilities, and income of Canadian subsidiaries consolidated are converted at the official rate of exchange. Other assets and liabilities of Canadian subsidiaries consolidated are converted at the prevailing rate at time of acquisition or assumption.

Foreign subsidiaries, all one hundred per cent owned, are shown as investments.

Affiliated companies, less than one hundred per cent but not less than fifty per cent owned, are also shown as investments. The equity in the net worth of these affiliated companies increased $2,934,227 between January 1, 1938 (or date of acquisition, whichever is later), and the date of latest unaudited financial statements. Of this increase, $746,057 is applicable to the current period.

Income includes dividends paid by foreign subsidiaries and affiliated companies out of surplus earned since date of acquisition.

2—Inventories totaling $111,971,398 consist of the following major classes: Raw Materials and Supplies, $44,237,240; Work in Process, $34,389,029; Finished Goods, $33,345,129.

3—The promissory notes provide for the payment of principal in the amount of $10,000,000 per year beginning on December 1, 1953.

4—A review of the operations for the year 1945 under the Renegotiation Act was made. Pending final settlement the cash refund to the Government, estimated to be $271,196, has been charged to Accrued Provision for Wartime Adjustments. The balance of $6,541,043 remaining in the Accrued Provision for Wartime Adjustments, resulting from charges against income in prior years, has been transferred to Reserve for Contingencies.

5—During 1947 the Corporation entered into Agreements with 215 employees, including 6 directors, all of whom devote their full time to the Corporation, and 6 officers who are not directors, covering 113,300 shares of its capital stock under the Stock Purchase Plan for Employees as approved and authorized by the stockholders in 1946. The Agreements set forth a price of $100.375 per share, which was the closing quotation on the New York Stock Exchange on the date preceding the offering. Under the terms of the Plan the price or prices shall be such price or prices as shall be fixed by the Board of Directors in its discretion, but not lower than seventy-five per cent of the market price. Each participant has five years to complete payment, and interest at the rate of two per cent per annum will be paid on the unpaid balance. The Board of Directors may take such action from time to time with respect to extension of time of payment as in the discretion of the Board is in the best interest of the Corporation. Stock covered by the Agreements is pledged by the participating employees as collateral security for payment. Shares are released from the pledge to the participants in blocks of 25 as payment therefor is completed. Each participant has also agreed to apply against the unpaid balance the amount, if any, by which the dividends paid to him on the pledged shares exceed the interest. The Plan provides that if a participant shall die the Corporation will offer, for a period of six months following his death, to repurchase the unpaid-for shares at the price to be paid by such participant. Since the inception of the Plan in 1946 a total of 202,000 shares have been issued of which 201,625 shares are held by the Corporation as collateral.

6—Union Carbide and Carbon Corporation and several subsidiaries are defendants in suits brought by employees for additional wages for the current and prior years, an equal amount as liquidated damages, and attorneys' fees and costs. Such suits are commonly referred to as "Portal-to-Portal Pay Suits." Approximately one-half of such suits which had been pending have been dismissed without liability or costs to the Corporation or its subsidiaries.

Although it is not possible to foresee with certainty the outcome of such suits as are still pending, they do not appear to require the making of provision therefor and accordingly no such provision has been made.

7—Union Carbide and Carbon Corporation has agreed to maintain the assets held by the Trustee of the Savings Plan for Employees in an amount sufficient to permit the distribution of the Trust Estate to the persons entitled thereto.

AUDITORS' REPORT

TO DIRECTORS AND STOCKHOLDERS OF
UNION CARBIDE AND CARBON CORPORATION:

We have examined the balance sheet of Union Carbide and Carbon Corporation and its one hundred per cent owned subsidiaries operating in the United States and Canada, as of December 31, 1947, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of Union Carbide and Carbon Corporation and its subsidiaries consolidated at December 31, 1947, and the results of consolidated operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HURDMAN AND CRANSTOUN
Certified Public Accountants

New York, N. Y., February 28, 1948

Products of Divisions and Units of UCC include

LINDE OXYGEN • PREST-O-LITE ACETYLENE • PYROFAX GAS • BAKELITE, KRENE, VINYON, AND VINYLITE PLASTICS
NATIONAL CARBONS • EVEREADY FLASHLIGHTS AND BATTERIES • ACHESON ELECTRODES
PRESTONE AND TREK ANTI-FREEZES • ELECTROMET ALLOYS AND METALS • HAYNES STELLITE ALLOYS • SYNTHETIC ORGANIC CHEMICALS

A Re-appraisal of the Steel Industry

(*Continued from page* 646)

revision been announced before a number of the smaller steel companies boosted their prices for hot and cold rolled carbon strip by as much as $10 per ton and silicon sheets by from $15 to $25 per ton. Flat rolled steel plates have also been boosted $6 per ton by some producers. In view of these price adjustments by smaller competitors, it is not unlikely that the large concerns will follow suit by pushing their own prices for finished steel products to higher levels.

Expansion Costs

Whatever justification for their upward price revisions the steel executives can present, it is undoubtedly true that they are worried over the prospect of financing their huge expansion program unless an unusual amount of net earnings can be accumulated for retention in the business. In like manner, the replacement costs of worn-out equipment are substantially above depreciation rates permitted by the Federal tax authorities. Between these two problems, the steel industry may point out that the public interest will be better served by maintaining operations on a sound basis than by assuming the burden of less profitable sales. The leaders in the industry evidently are confident that business activity will continue near its current level for several years. Otherwise they would not have had the courage to spend such large sums for new plants that some day may be idle.

It appears certain that the producers of steel will find ready markets for everything they can turn out during 1948, and that though their move to raise prices is arousing widespread criticism, there is now greater assurance that earnings in the current year will be comparable to those achieved during 1947. This potential applies rather broadly to most of the steel concerns regardless of their size, for demand is so insistent that customers disappointed in deliveries accorded them by the big companies are looking in every direction to find even a partial source of supply.

As for dividend prospects in general, the outlook for increased distributions during 1948 is none too bright, despite the wide margin of net earnings apparent at the end of 1947. A high degree of stability, however, is assured for current dividend rates for many months ahead, unless something very unexpected crops up to change the picture. Though under present conditions inventory turnover is exceptionally rapid, high prices require the employment of large amounts of working capital. And to carry through to a conclusion many of the expansion programs on which both big and little concerns have embarked, a substantial share of earnings must be reinvested in the business. This is especially true at present when unsatisfactory stock market conditions militate against the raising of new equity capital.

Due to last year's excellent performance and the bright prospects for at least another year to come, shares in the steel group have held their prices rather better than the general run of industrial stocks. In sympathy with the broad market decline of recent weeks, though, steel shares generally have developed a downtrend. Knowledge that break-even points have been pushed high by rising costs and that net earnings could recede fast if production should assume a slower pace, has held price-earnings to a conservative level and permitted income yields to rise to attractive proportions.

On the other hand, earnings and dividend prospects indicate continued better than average market action in the months ahead. In any future market recovery, steel shares may well resume their role as one of the leading groups. Hence with proper timing and selection, steel shares may not be without attractive potentials.

What Year-End Statements Reveal for 1948

(*Continued from page* 633)

and modernization programs largely accounted for the trend. Although manufacturers as a group retained about half of their 1947 net earnings in the business, expenditures for plant and equipment absorbed a large share. Right here is one of the main problems now worrying managements, for under current unfavorable conditions in the stock market, over-reliance upon retained earnings has become necessary in financing plant improvements and to carry large inventories. Unless net profits provide ample sums for dividends, the capital markets will remain reluctant to absorb new issues of equities, and financing by new preferreds will become less economical. This all throws heavy weight upon borrowing, as shown by sales of some $3.5 billion in notes and bonds during 1947, compared with $2 million in 1946.

A continuation of this trend might prove disadavantageous to holders of equities in the long run, despite low interest rates paid for loans, because of contractual restrictions upon dividends and heavy sinking fund provisions. If lean times should arrive, dividend stability of some heavy borrowers might become less well assured than formerly.

On another appended table we show annual sales and profits of the 20 concerns under discussion, both for 1946 and 1947, along with their profit margins and quarterly earnings for last year. The impressive gains in volume shown more than anything else account for the widespread rise in final net nearnings, for it will be noted that this permitted a widening of profit margins by most of the concerns listed.

Today's Trends in Machinery Companies

(*Continued from page* 650)

copper and other metals all over the world are modernizing their operations on a scale never before attempted.

Export sales of all varieties of machinery may decline somewhat during the current year, for shipments to Russia seem headed for serious restrictions and dollar exchange has become an acute problem with many nations. At that, the urgent need for adequate equipment to support or to restore economic prosperity abroad is likely to maintain export volume of machinery at fairly satisfactory levels. Beyond question, the Marshall Plan will provide large sums for the purchase of essential machinery, while loans from the International Bank and the Export-Import Bank may further enhance sales potentials.

Manufacturers of tractors, road building machinery and materials handling equipment may look forward this year to profits comparable to those achieved in 1947, and that is saying a good deal. So many different users, from farmers to home builders and public authorities, are demanding the highly efficient diesel powered tractors that the supply is far short of requirements. Demand of this sort stems from all over the world, and despite the great numbers of tractors now pouring from our factories, it is rumored that Britain expects to ship us 6,000 units before long in order to build up her dollar balances.

Road Building Machinery

As for road building machinery, manufacturers of this equipment are particularly confident of well sustained prosperity. This is because the projected program for public works has reached immense proportions, involving many billions of dollars. Much of this work has already started, and while scarcity of fuel oil is deterring purchase of much needed equipment, orders are increasingly substantial, Better yet, if a recession should begin to threaten production throughout the economy, the Government and States plan to jump into the breach in an attempt to stabilize matters with huge outlays for public works. This prospective cushion should prove highly beneficial to the equipment manufacturers if their industrial sales should start to decline.

The rather natural belief that machinery markets are found mostly with concerns shaping and forming metals of one kind or another should be dispelled by examining other outlets that have become exceedingly important. Two industries that are spending immense sums on expansion and modernization of their facilities are the textile and paper groups. Although for many years past the number of looms and spindles in the country has far exceeded the needs of the textile manufacturers in the cotton and woolen industry, the excess equipment has been substantially reduced from year to year.

Since the end of World War II, rising costs of textile production have stimulated a widespread replacement of obsolete equipment,

mand for ultra-modern textile thus creating a very heavy de- machinery. Then, too, the major expansion program undertaken by rayon manufacturers has swamped the equipment manufacturers with orders. On balance, strong concerns making textile machinery foresee several years before they can catch up with their orders, and due to the insistent demand they probably can match rising costs with adequate price lifts to maintain satisfactory profit margins. These same comments can be applied to manufacturers of machinery for paper producers, although demand in this field may become satisfied somewhat sooner.

Backlog orders piling up with manufacturers of portable electric tools foretell another year of highly satisfactory operations in this special field. Both foreign and domestic demand for small equipment of this sort continues to be substantial, for there are few industries that have not discovered the merits of these cost-saving devices. Besides orders for new orders, replacement demand tends to stabilize volume of this industry, for the life of these tools is a good deal shorter than those of heavier equipment.

Good Year for Most

Summing up, it appears that 1948 should prove about as profitable as last year for most branches of the machinery industry, although due to major uncertainties in the offing, it would be safer to limit predictions to the first six months. Regardless of generally wide margins of earnings over dividend disbursements, it is not probable that more liberal treatment of shareholders will be accorded, except in rare cases. Substantial needs for working capital are likely to hold distributions close to last year's proportions. Some of the stronger manufacturers of machine tools, forced to cut dividends in 1947, on the other hand may improve earnings enough in the current year to restore payments near to former levels, at least before the year is ended.

The traditional sensitivity of the machinery industry to changes in industrial activity attaches a decided speculative element to their investment equation. Since the collapse of the stock market boom in 1946, shares in this group have been deflated in price about equally with the general run of industrials. At current prices, selected issues hold a good deal of speculative appeal since foreseeable prospects are rather modestly valued.

Earnings Prospects for the Motors

(*Continued from page* 652)

to 42%; and Plymouth remained about the same at 22%. The significance that these figures might imply must be tempered with the thought that these accomplishments were not made under normal competitive conditions. But with the actual or prospective production of new models, the period of earnest competition is close at hand.

The position of the smaller automobile companies has shown a marked improvement, their sales increasing from less than 10% of the total in 1941 to nearly 16% in 1947. Here again, too much significance cannot be read into these figures. The competitive position of these companies appears to be no better than in 1941; actually it may be worse in view of the greater number of producers. When raw materials become more plentiful, the leading companies will probably again assert themselves, to the possible disadvantage of the small companies. These may resort to mergers to improve their positions. In any case, there is always a chance for smart management to make headway, even in the face of severe competition. Currently there is ample business for all.

Production this year will be determined by the supply of sheet steel and pig iron, and further influenced by interruptions due to model changes. Production in January was well above the rate of 5,000,000 units a year, which includes trucks. While February was materially affected by shortages of gas in the Michigan plants, March will probably see a considerable part of the lost production made up. Indications point to an output total for the first quarter of this year slightly less than the December quarter when 1.37 million vehicles were produced. Second quarter results should be much better. The latter part of the year will probably find most companies in the midst of model changes, with a consequent falling off in production schedules. Nonetheless, the industry should be able to turn out well over 4,000,000 cars and more than 1,000,000 trucks for the year, to top the 5,055,000 units produced last year (United States and Canada).

Commercial vehicles present varying aspects. The three major passenger car builders, together with the largest farm equipment company, enjoy the bulk of the business. Heavy-duty vehicles are big profit producers; demand for these is largely dependent on the capital goods industries, especially building and construction;

trucking companies are also valuable outlets. In the heavy truck field, demand and supply is already approaching balance. But while most urgent needs have been met, the long period of war and post-war peak usage would seem to indicate a large potential market for the heavy-duty units. Offsetting this in part are the rapid strides that light trucks have made in recent years.

Price Resistance?

Heretofore, producers have been able to lift the prices of their cars without encountering serious consumer resistance, reflecting the great and pressing demand prevailing all over the country. These higher prices followed the granting of wage increases, the steady uptrend in the cost of materials, and higher freight rates. Of late, however, there are indications that the higher-priced models are selling less readily. Some curtailment of operations has already been made by one producer in the interest of most economical operations. The price-cost problem, generally, may henceforth become more serious.

Perhaps the time is not far distant when automobiles will again have to sold rather than allocated to eager buyers. That this may develop during the latter part of this year, and become further accentuated in 1949, is a possibility. Yet these prospects are not foreboding; rather, they are the harbingers of healthy competitive conditions that are apt to redound to the benefit of the buying public. What's more, such a development is likely to widen the ultimate potential market for new cars.

Thus longer range prospects appear distinctly promising. Less than 6,500,000 cars have been produced in the United States and Canada since the war, compared with an average annual output of approximately 3,000,000 cars. An indication of the extent of the market may be had when one considers the fact that in certain pre-war years, the number of cars scrapped annually was greater than the total produced since the war. Today's automobile no doubt has a longer life expectancy than the prewar car; yet this should not materially affect the potential market. That the latter could be of tremendous serious handicaps, automobile proportions, provided a reasonably low-priced car is produced, will serve as a constant stimulant to producers.

In the meanwhile, the automobile industry is well on the road to establishing new peaks in profits. While final reports have not been received as yet, last year's earnings will show a marked improvement over 1946, when production difficulties, such as materials shortages and labor strikes, considerably hampered output. The situation in materials is expected to improve as the year progresses, though the possibility of steel quotas—and their size—is an uncertain factor in this respect. On the other hand, no serious labor disturbances are expected.

The excellent results shown by the various companies last year were obtained with the industry as a whole operating at only 70% of capacity. Even a moderate betterment of this rate could result in new profit peaks for most companies, other factors remaining unchanged. Ambitious postwar expansion programs have either been completed or are well under way. Total expenditures for such purposes will approximate three-quarters of a billion dollars, with new assembly plants and retooling comprising the bulk of the outlays. The cost of tools and dies has increased so sharply that there may develop a trend to amortize costs over more than one model year. If this is done, it may enable a quicker and greater lowering of prices over the next few years.

Barring unforeseen events, and with adaptations to changing economic trends, the automobile industry may well look forward to a prolonged period of good business. Certainly the need for cars exists, and it is a substantial one. The desire for new cars on the part of the public may have been dented but it is far from being dampened. Re-establishment of price levels more conducive to satisfying the mass market for lower priced cars hold potentials that should keep the automobile industry profitably busy for a good many years.

Market action of automobile stocks is generally in line with the industrial average, though the industry's cyclical aspects make for occasional variations. In 1946, when strikes constituted serious handicaps, automobile shares fared somewhat worse

than the general market, but their performance was outstanding in the early months of last year. Action since then has been closely in line with the general market, with leading issues outperforming those of the lesser companies, and the recent market break has carried prices of most of them close to their 1946 lows.

While dividends were relatively conservative in 1947, indications point to more liberal disbursements in the current year. This, plus the fact that the industry should show better than average resistance to any recessionary business trends, should make for constructive market action of the leading shares in any future market recovery.

Divergent Outlook for Motor Accessories

(*Continued from Page* 654)

The car manufacturers long ago learned that despite their natural inclination to turn out a substantial proportion of their own car components, top roduce all would involve over-heavy capital investments. Spreading of research and engineering expenses over the numerous parts suppliers also was a constructive move. Hence the current practice of distributing substantial orders for equipment and parts through hundreds of outside sources came into vogue, and is bringing widespread prosperity to the supplier industry, although at some time during the longer term, overreliance on the automotive industry for a market may find some of the parts manufacturers out on a limb, as has happened in times past.

Should such a period return, however, it is interesting to note that, judging from former experience, parts makers catering principally to the replacement market may fare better han suppliers of original equipment during depressive years. Back in the 1930s, for example, sales of original equipment slumped off by 78%, whereas the replacement business shrank less than half as much. When better times arrived, moreover, volume of the later segment of the industry rose to satisfactory levels far more rapidly than that of the former. Thus while a possible deterioration in general business activities would broadly affect both classes of suppliers, greater relative stability may be in store for those concerns concentrating upon production of replacement parts, as many of them now do.

On the other hand, awareness of traditional cyclical hazards has led any number of important concerns rated as accessory and parts manufacturers to diversify their output into other fields of endeavor. This trend has become particularly noticeable since VJ-Day and in some instances has substantially altered production policies.

Take Borg Warner, for example, now manufacturing household appliances and refrigerators on a large scale; A. O. Smith's welded pipe division is doing the largest business in its history; home freezers are coming from the factories of Motor Products; Motor Wheel is offering oil heating equipment; Budd Company's volume is now well divided between the automotive and railroad industries; Timken-Detroit Axle is turning out oil burners, while Stewart Warner is well entrenched in radios. This list could be expanded almost indefinitely, but the examples mentioned indicate the broad trend towards diversification that has developed, and the wisdom of weighing the supplementary fields many parts manufacturers have entered, when it comes to scanning their individual potentials.

Further bolstering sales and earnings potentials of numerous accessory manufacturers for 1948 and longer is the broad scale resuscitation of the aircraft industry now proposed by Congress. During the war, makers of automotive parts gained substantial experience and profits from production of aircraft parts, and though business in this field naturally catapulted downward after VJ-Day, more than one concern in the group continued with moderate success to exploit the aircraft market during 1947.

As matters look now, it seems likely that governmental outlays for military planes may be stepped up by several billions of dollars annually, in which event some very substantial orders for parts will probably swell the backlogs of many manufacturers accustomed to producing items of this kind. Due to the urgency of this special demand, the producers undoubtedly would receive preference in allocation of essential materials. Since the program as presently envisaged would run over a period of five years, quite

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possibly volume of this character would tend to stabilize operations of the parts manufacturers at a high level should a recession in demand for automotive parts occur later.

While profit margins on Federal orders, or in connection with them, would undoubtedly be rather narrow, the spreading of overhead over several kinds of production would benefit the overall picture. During 1947 the profit margins of the automotive parts manufacturers were rather easily held to satisfactory dimensions, despite the general uptrend in operating costs, for a rapid expansion in volume and occasional price lifts proved to be offsetting factors. Leaders in this industry frankly are somewhat worried over cost and price problems during the current year, however.

During 1947 they exercised considerable restraint in advancing prices for their products in view of their substantial dollar profits and their desire to cooperate with the car manufacturers. Now looms the possibility of a third round in wage boosts, and what the recent advance in prices for unfinished steel may entail is awaited with keen concern. If materials used by the accessory manufacturers are lifted in price, some of them declare they will have no alternative but to remark their own prices upward, distasteful though this would be.

Comparisons of the balance sheets of the leading concerns in this industry from year to year since Pearl Harbor reveals a marked strengthening of financial positions all along the line. Working capital in more than one case has doubled and tripled, plant expansion has been impressive, and steps have been taken to reduce senior securities. Few of the large concerns in this field are burdened with funded debt and where term borrowing has been undertaken or standby credits arranged, low interest rates have been the rule. Implementation of diversification policies also have so increased the stature of many parts manufacturers in recent years, so that in effect they are quite different concerns as compared with prewar. Viewed from this aspect, differing yardsticks may be in order in appraising their outlook.

Since 1946 was an abnormally poor year for the parts manufacturers, too much emphasis upon their rate of earnings gains during 1947 would hardly be wise. Instances where reported net earnings last years climbed threefold over 1946 should be discounted by the fact that the earlier base was an unusually low one. On an appended table, however, we show reported or estimated net earnings of 33 important companies in the industry under discussion for last year. Where full year earnings have not yet been reported, interim earnings have been employed as a basis for conservative estimates.

In studying these figures, the widespread prosperity of the group during 1947 is decidedly apparent, and if the performance is duplicated during the current year, as may happen, shareholders generally should be well satisfied. As for dividends, more than 20 concerns in this industry raised distributions last year, and four more resumed payments following earlier lapses. Judging from the outlook, dividends should remain fairly stable during 1948, with prospects for improvement here and there.

Shares in the automotive accessory group of the Magazine of Wall Street Common Stock Index displayed characteristic volatility during 1947, as evidenced by a range of high—237.4, low—161.9. Recently, in sympathy with general market trends, our Index figure stood at 175.3, a low mark for 1948. Although shares in this group seldom enjoy high price-earnings ratios, our table shows that many of them are now selling at prices equivalent to only a few times earnings at current rates. In a good many instances the yields are not only attractive but could probably hold for some time to come.

On balance, shares in this group appear to be rather strongly deflated and in any general stock market recovery could be counted on to give a good account of themselves. In other words, they enjoy considerable speculative appeal, especially if adequate selectivity is employed.

Lower Prices on Export-Import Trade

(*Continued from Page* 640)

in some curtailment of the purchasing power of the farming community. But this reduction should not be serious, not only because farmers as a group produce far more than they did before the war, but also because, even at present levels, farm products still buy considerably more non-agricultural goods than they did before the war. On the international scale, to carry the thought further, the producers of farm products and raw materials will fare much the same as American farmers.

What is likely to be the effect of the increased world output of farm products and of several other staples on our exports? In our opinion, it would accelerate (1) more selective buying in this country on the part of our customers, and (2) a return of American exports to their prewar pattern.

The rest of the world would probably take less of our foodstuffs, textiles, and other consumer goods. Canada and Latin America, now that their dollars are running short, will undoubtedly continue to be very selective in their purchases, concentrating on industrial raw materials and industrial equipment necessary for their postwar development.

As I See It!

(*Continued from page* 625)

to have lost the primitive cunning of self-preservation.

The prospect of what is ahead for us if Russia continues on her path of easy conquest should have a sobering effect upon all responsible citizens. If Russia is permitted to dig in and consolidate her position in Europe, which would take several years longer, we would not only be unable to dislodge her, but she might be able to annihilate us and destroy the United States with new weapons that might be developed by that time. In the meantime she would be waging an economic war against us that is likely to bankrupt the United States and bring unbelievable chaos to our land.

And, if we wait too long, Russia will be sitting astride the Dardanelles and even be in control of Palestine — in a position to dominate the Near East and shut us out of the important oil reserves and commerce so necessary to us in this modern age.

We must therefore challenge Russia while she is still in the throes of consolidating her position in the captive countries. And we must stop her NOW by offering military aid to Finland, to Italy, to France and to any country threatened by the Soviet Union. And, our military aid for defense against Russian aggression should include a necessary quota of atom bombs, and the planes for dropping them on Russian targets. This is the only way in which we can use our pile of atom bombs to the advantage of the rest of the world—it is also the only way to stop further Russian aggression and bring to tortured humanity the greatly longed-for peace.

Inventories Overdone?

(*Continued from page* 635)

All this means, that either wholly or partially—depending on the size of reserves and/or the price levels when "lifo" was adopted, potential inventory losses of corporations that have provided such safeguards already have been absorbed and will not affect future profits. Moreover, commodity processors, usually most vulnerable to price declines, also usually hedge their raw material requirements to an extent that should at least prevent serious losses. Besides, most of them also fortified their position by setting up sizeable reserves.

Protective measures vary, of course, leaving some companies more, some less vulnerable to price declines, but by and large, the inventory risk, while threateningly real in some cases, is probably less than many people fear. And now, apart from the various protective measures mentioned, the effect of the recent price tumble has been to make large consumers of major commodities put an immediate brake on buying. Also there are still many areas where tight supply will continue to bolster prices.

To sum up, any reversal of such a prolonged price rise as we experienced in recent years is bound to result in inventory losses, in some cases probably severe ones if precautionary policies have been absent or insufficient. But on the whole, business today is better fortified against inventory risks than at any time in the past. Moreover, there is every indication that the price decline, even if it continues, will stop short of becoming a price collapse; fundamentals argue against it, at least for the time being.

Recession or Depression?

(*Continued from page* 631)

measure to current business caution. We have reached a vulnerable stage where business *could* turn down decisively if it were to receive some serious shocks. These could come from abroad, or take the form of another sharp commodity break, induced possibly or aggravated by exaggerated inventory dumping growing out of undue pessimism in business thinking. Hence the importance of close study of nearby business trends and indices, of business psychology, and of careful analysis of their real meaning rather than yielding to snap judgment along lines of popular thinking, that in the past so often proved wrong.

Last month's break in farm commodities must be regarded as a warning signal that the postwar boom has become highly vulnerable, that the powerful inflationary forces that produced it have reached and passed their peak. Experience shows that all booms come to an end; there is no reason to expect that natural laws will not again take hold and work for needed adjustments to bring the economy into better balance.

Business and markets are waiting for evidence that such a transition can be accomplished without the ordeal of a serious recession. Conclusive evidence is still lacking but there are many weighty and convincing factors that point strongly in such a direction.

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